MINUTES OF THE PENSIONS INVESTMENT COMMITTEE

Thursday 14 February 2019 at 7pm

Present: Councillors Ingleby (Chair), Krupski (Vice-Chair), Best, Codd, Maslin, Muldoon, Sheikh

Also Present: Stephanie Fleck (Principal Lawyer), David Austin (Head of Corporate Resources), Robert Browning (Principal Accountant), Nick Jellema (Hymans Robertson), Simon Jones (Hymans Robertson), Sarah Assibey (Clerk)

Apologies: Councillor Feis-Bryce

1. **Declarations of Interest**

   Councillor Best and Councillor Muldoon declared interests as members of the Pension Scheme.

2. **Minutes**

   The minutes of the last meeting are to be amended as follows:

   In 6.4., the second sentence be changed to "Advisors said that pure divestment shifts…" to make clear that the advisors had made these statements.

   Remove 6.4. i) from "RESOLVED" and change 6.4. ii) to 6.4. i).

3. **Schroders Presentation**

   Schroders representatives introduced themselves and presented this report giving an update on the following:

   3.1. The Schroder Real Estate Capital Partners team has £4bn under management, managed on behalf of 22 separate clients. It practices strong governance, has fiduciary oversight, and ESG awareness is a focal point of portfolio construction. The research-led approach to investing underpins investment strategy and there are 8 unique investment strategies which provide, exclusive to SRECaP, exposure across all sectors.

   3.2. In real estate investment the team of professionals focus their research on cyclical and structural factors (such as occupational demand at a town and city level, availability of capital) to assess the asset allocation.

   3.3. ESG and sustainability is a core part of the Schroder Real Estate investment strategy. They have industry recognition as a GRESB fund manager member. Sustainability principles are considered at all stages of investment lifecycle and are included in annual asset business plans and fund strategy statements.

3.4. The Lewisham RECaP portfolio, as at the end of Q4, has a value of £120.7m, underlying exposure of £19.1bn and it also has £0.8m in cash representing 0.6% of portfolio value. Overall, the performance of the mandate is favourable relative to the benchmark since the increased allocation to partnership strategies.

3.5. The SRECaP partnership strategies are a diverse range of exclusive strategies. Two new strategies are built to sell retirement living/specialist supported housing and hotels, closely reflective of economic cycle.

The Committee noted this report and the Chair thanked Schroders for their attendance and presentation.

4. Blackrock Presentation

Blackrock representatives introduced themselves and presented this report giving an update on the following:

4.1. The performance of the Lewisham mandate as at 31 December 2018 was above benchmark over the year, with a relative outperformance of 0.13%. Asset allocation was split across equity and bond funds and there was a pick up from security's lending under the Aquila Life equity funds.

4.2. The approach to the Blackrock ACS World Low Carbon Equity Tracker Fund (which is not currently employed in the Lewisham mandate) is by overweighting companies with low carbon emissions and those with low potential carbon emissions, such that the index reflects a lower carbon exposure than that of the broad market. The index aims for a tracking error target of 0.3% relative to the parent index while significantly reducing the carbon exposure by 70%. Another aim is to engage companies on sustainability issues that impact long term performance. The Fund has 1230 holdings in 23 countries and the AUM is £326m.

4.3. For the BlackRock Global Renewable Power strategy, for which there has been two funds, and a third fund soon to be fundraising, it pursues market opportunities for sustainable and green energy infrastructure. It has a track record of over 250 renewables investments and $5bn AUM. The proposed overview and objective is to have low correlation to public markets, a gross return of 12-13%, gross income of 5-7% and an active impact aligned to UN sustainable development goals

4.4. The green energy transition is becoming more mainstream and today has $9tn transition to renewables. It is expected that there will be a shift from two-thirds fossil fuels today to two-thirds renewable power by 2050

4.5. Electricity generation and consumption is becoming more resilient, decentralized and dynamic. Energy storage applications address intermittency of renewable power. Increasing the adoption of electric vehicles requires new infrastructure investment.

4.6. GRP III will seek to generate sustainable, low-correlated returns through climate infrastructure investments that are expected to benefit from long-term, structural trends. High portfolio diversification would be achieved through low correlation investments-wind and solar are key drivers of return.

The Committee noted this report and the Chair thanked Blackrock for their attendance and presentation.

5. Asset Pooling Update

The Head of Corporate Resources presented this report.
The MHCLG draft statutory guidance was published on asset pooling. The deadline for the consultation is the 28 March. The Pension Board will also be responding to the consultation separately. The report also presents a draft timetable from the Fund's advisors on the recommended priorities for mapping the Fund's existing assets to the London CIV.

5.1. Hymans advisors added that the guidance highlights that pool members should transition assets into the pool quickly and cost effectively and should normally make all new investments through the pool company to maximise benefits of scale. From 2020 pool members should make new investments outside the pool only in very limited circumstances

5.2. The draft guidance states that pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation can deliver improved returns.

5.3. Advisors pointed out that the guidance sets out new reporting requirements that the Committee will have to consider and plan ahead for as they come into effect from the 2018/19 annual report with a requirement to report on the cost and performance of pooled assets. It was their view that the guidance is there to ensure that Committees clearly report their reasons for pooling assets and investments.

5.4. Councillors stated that the guidance should not be an issue for the Committee in theory as they are a member of the pool. Advisors stated the main issue is that the London CIV needs a sufficient number of LLAs to be interested in a specific asset class to be able to make it viable.

5.5. Members noted that there was no guidance on ESG and asked if it was something that could be mentioned in the response to the consultation. Advisors stated that London CIV does have a responsible investment policy available upon request.

5.6. Members asked if a commitment to divestment can be affected by pooling. Advisors stated that the Committee is responsible for the investment decision making and there is legislation around pooling that needs to be adhered to. If there is a decision by the Committee around divestment and the options around the pool do not meet the needs of the Committee then that is justification for having assets outside of the pool.

RESOLVED that the Committee noted the flexibility of arrangements for the pooling process across different asset classes and thinks this is helpful at the current time. The response will be circulated to Members via email.
The committee also noted the draft timetable from Hymans.

6. Responsible Investment

Hymans presented this report following a discussion on divestment at the last meeting and an agreed approach to managing it in the context of the Committee's wider fiduciary duties and the setting of the Fund's ISS.

6.1. Investors should recognise the potential financial impact of ESG factors in investment decision making and should act as responsible active owners though considered voting of shares and engagement with company management.

6.2. The Committee reconfirmed its strong desire to reduce carbon exposure in the Fund. Carbon foot printing analysis, currently being undertaken by TruCost, is solely equity focused so as part of the follow up advice of formalising carbon and fossil fuel policy around divestment, there can also be a follow up on how to make other impacts in the same area of investment i.e. renewables.

6.3. Advisors discussed the need to translate the Committee's views into practical steps and policies, using the data from the TruCost exercise as a benchmark to focus on equity mandates first but with a longer –term plan in relation to non-equity investments.

The rest of the report was noted.

7. Investment Performance for the Quarter End

The Committee noted this report.

8. Quarterly Performance Report

The Committee noted the report.

9. General update

The Committee noted the report and agreed to delegate to the Acting Chief Finance Officer the signing of the London CIVs guarantee and recharge agreements.

10. Brexit Update

The Committee noted the report

The meeting finished at 9.35pm