

MINUTES OF THE PENSIONS INVESTMENT COMMITTEE

Tuesday, 9 November 2021 at 7.00 pm

PRESENT: Councillors James Royston (Chair), Patrick Codd, Mark Ingleby, Caroline Kalu, John Muldoon and Stephen Penfold

ALSO PRESENT:

Apologies for absence were received from Councillor Chris Best and Councillor Louise Krupski

1. Declarations of Interest

None

2. Minutes

RESOLVED that the minutes of the meeting of the Pensions Investment Committee held on 22 September 2021 be confirmed and signed as a true record.

3. Annual Pension Fund Report

The report was presented by the DCR. The Committee were advised on the London Borough of Lewisham's Pension Fund Annual Report and it was noted that the supporting financial statements would be considered by the Audit Panel and then be presented to full Council with the annual statement of accounts on the 24 November 2021. The Members were informed that the Annual Report would also be reviewed by the Council's external auditors Grant Thornton, to provide a consistency of opinion on the presentation of the financial statements in the Annual Report. The Committee were advised that the statutory deadline for publication of the Annual Report would be the 1 December 2021.

Members asked questions that were answered primarily by the DF; some of these were in regard to the:

- Pension Board membership and the inability of the Board to be quorate, in order to hold regular Board meetings.
- Information provided on page 19 of the report, regarding employee representatives.
- Inclusion in the report, of the local authority's investments diversification into renewable infrastructure via LCIV.
- Local authority as signatories to the UK Stewardship Code (2020).

In response to the above questions, the DF:

- Confirmed there had been problems with the ability of Pension Board to hold quorate meetings, which would need to be addressed.

- Clarified the details of the employee representatives and also the scheme representatives. The DF acknowledged the information provided in the report, was in error and would be amended throughout the report.
- Stated the local authority's investments diversification into renewable infrastructure via LCIV could be made clearer in the report although these were post year end events.
- Advised Members that the local authority had indirectly signed the UK Stewardship Code (2020) via its support of the LCIV code. Hymans advised training would be arranged for Members, with regard to the UK Stewardship Code (2020).

Recommendation:

The Committee was asked to review and note the contents of the report.
RESOLVED that the report be noted.

4. Exclusion of the Press and Public

RESOLVED that under that under Section 100(A) (4) of the Local Government Act 1972, the public be excluded from the meeting during discussion of this item because it involves the likely disclosure of exempt information as defined in paragraph 3 of part 1 of Schedule 12A of the Act as set out below and the public interest in maintaining the exemption outweighs the public interest in disclosing the information:-

- 5. Quarterly Performance Report
- 6. Low Carbon Passive Equities Update
- 7. Private Debt Options Analysis
- 8. General Update

The Committee were asked to review and note the contents of the report.
RESOLVED that the report be noted.

5. Quarterly Performance Report

The Head of Financial Strategy, Planning and Commercial (HFSPC), gave a summary of the report that would be presented by Hymans Robertson to the Committee. The report outlined the quarterly performance of the Pension Fund investment portfolio and:

- Discussed the value of the Fund's assets and movements over the quarter to 30

September 2021;

- Provided a performance summary of each manager over the quarter; and
- Gave an assessment of the fund managers and any recommendations for the next quarter.

Members were advised that the:

- Report would be presented by the Council's advisers to inform a discussion of the contents.
- Value of the Fund's assets had increased by £32m approximately, over the quarter and all the mandates had delivered positive returns. However, it was noted that Schroders and Pemberton trailed their benchmarks moderately. The fund had delivered a return of 1.9% over the quarter, modestly outperforming its composite benchmark by circa 0.4%.

The Committee were asked to note the contents of the report.
RESOLVED that the report be noted.

6. Low Carbon Passive Equities Update

The HFSPC presented the report to the Committee. The report summarised the progress to date, of the transition of 100% of the Funds passive equity allocation, into a combination of the London Collective Investment Vehicle (LCIV) and Storebrand. Members were advised that 60% would be allocated to the Passive Equity Progressive Paris Aligned Fund (PEPPA). Then 30% and 10% would be allocated to the Storebrand Global ESG Plus developed and emerging markets funds, respectively. The transition arrangement followed the decision by the Committee, to invest in these funds at its meeting held on the 22 September 2021.

The Committee were asked to note the contents of the report.

RESOLVED that the report be noted.

7. Private Debt Options Analysis

The HFSPC gave a summary of the reports that would be presented by Hymans to the Committee. The HFSPC outlined Hymans' recommendations, advising what members were required to consider, when deciding on the recommendations.

The report presented by Hymans discussed the current allocation to Private Debt. The report noted that it was below the target allocation of 6%. Two options were proposed for the further investment of approximately £85m, required to maintain the target allocation. It was noted that the recommendation would be to invest in the LCIV Private Debt Fund, as the preferable option.

Recommendation:

The Committee were asked to:

- i. Review this report and supporting reports appended;
- ii. Discuss the two main options proposed;
- iii. Note the recommendation that the investment is made into the LCIV Private Debt Fund;
- iv. Note the likely investment quantum of £85m; and
- v. Note that a decision to agree the private debt mandate and allocation amount be made at the next meeting.

The report considered the need to commit further funds to private debt mandates, to ensure that the Fund remained aligned to its target allocation of 6%. The current allocation was approximately 4.5% and would reduce with time and therefore further investment would be required. It was anticipated that an investment of circa £85m would be necessary to maintain the target allocation.

Members were advised that the local authority's advisors Hymans Robertson had undertaken an options appraisal and considered both further commitments to subsequent vintages provided by the existing private debt managers, as well as the alternative option of investing with LCIV. For example one or both of Partners Group and Pemberton and the LCIV Private Debt Fund. Hymans Robertson provided two supporting papers alongside the report that provided further detail on the work required, with an advisory note that considered current and future investments and a product assurance note on the LCIV private debt fund.

The Committee were advised that Hymans recommended that at the next meeting a decision is taken to confirm an £85m commitment to the LCIV Private Debt Fund.

Members asked questions that were answered by Hymans and the HFSPC.

Members agreed the recommendations and in relation to the recommendations:

The Committee were asked to note the contents of the report.

RESOLVED that the report be noted.

8. General Update

The paper was presented by the HFSPC and provided the Committee with an update on several general pension related matters, from the last quarterly period.

Recommendation:

The Committee were asked to:

- Note that a decision to agree to the proposed changes to the London Collective Investment Vehicle's (LCIV) Articles of Association and Shareholder Agreement, as set out in section 5, would be taken as a Chair's action and formally approved at the next physical Committee meeting;
- Note that officers would instruct Schroders to transfer the Real Income Fund (RIF) allocation as cash rather than in specie following an announcement of winding the fund up and pending an investment decision by the Committee (note important update on this initial recommendation below); and
- Review and note the contents of the report.

During the meeting's consideration of the aforementioned recommendations, it was proposed that that officers would *not* instruct Schroders to transfer the Real Income Fund (RIF) allocation as cash. Instead, it was agreed to proceed with the Schroders proposal for an in specie transfer to be made. Ross MacLeod gave some further background information on the proposal, noting it was effectively an administrative exercise by Schroders to simplify its fund structure, and it would not result in a worsening of the liquidity position. As such, there is no need to instruct a liquidation of this part of the portfolio. However, it was reiterated that a review of the whole Schroders portfolio over the course of 2022 would be beneficial.

The report outlined out a number of general matters, to ensure the Committee would be appraised on the work ongoing, in respect of the Fund. The report also noted the need to seek agreement to changes to the Articles and Shareholder Agreement for London CIV. Members were advised that the need to do so, followed notification from the Financial Conduct Authority (FCA) that the current capital did not meet the definition of regulatory capital used by the FCA. Members were informed this development did not require London CIV to raise further capital or for boroughs to contribute further capital. It was rather a case of amending the key constitutional documents, to ensure that existing capital fell within the definition set out in regulations.

Members asked questions that were answered by the Director of Finance.

Members agreed the recommendations, noting the amendment in respect of the recommendation to instruct Schroders to progress the in specie transfer of the Real Income Fund.

The Committee were asked to note the contents of the report.

RESOLVED that the report be noted.

The meeting ended at 8.57 pm