

<b>PENSIONS INVESTMENT COMMITTEE</b>			
<b>REPORT TITLE</b>	Infrastructure Manager Selection		
<b>KEY DECISION</b>	No	<b>Item No:</b>	2
<b>WARD</b>	N/A		
<b>CONTRIBUTORS</b>	Head of Corporate Resources		
<b>CLASS</b>	Part 1	<b>Date:</b>	28 March 2018

## 1. PURPOSE

- 1.1. The purpose of this report is to provide a procurement pack for the interview and selection of an infrastructure fund manager, based on discussions held at previous meetings of the Committee and on the shortlist of managers presented to the Committee at the February 2018 meeting.

## 2. RECOMMENDATIONS

- 2.1. The Committee is asked to note the contents of the report and, as per its authority under the Constitution:
- 2.1.1. interview the shortlisted infrastructure fund managers;
  - 2.1.2. score each manager using the scoring sheets in the attached report, and;
  - 2.1.3. agree to appoint at least one manager with which to invest the Fund's allocation to infrastructure.

## 3. BACKGROUND

- 3.1. The London Borough of Lewisham Pension Fund is set up under the Superannuation Act 1972, requiring the Council to maintain a Pension Fund for its employees and those admitted to the Fund under an admission agreement. The Council has established the Pensions Investment Committee (PIC) and delegated full authority to make investment decisions, including the appointment of fund managers, as per its Terms of Reference in the Constitution.
- 3.2. At a meeting of the PIC in February 2017 it was agreed that approximately 20-25% of the Fund's equity holdings would be sold in two phases, and the cash invested in more diversified and income based mandates; the objective is to de-risk the Fund by reducing its exposure to the volatility inherent in equities whilst improving the diversification of the Fund's portfolio.
- 3.3. The first phase of the disinvestment is complete, and saw 12% of the Fund's equities sold, with half invested in a new Diversified Growth Fund and half committed to two new Multi Asset Credit managers.
- 3.4. The second phase will see an additional 11-12% of equities sold to fund a 6% allocation to infrastructure and an increased allocation to alternative credit.

## **4. INFRASTRUCTURE SELECTION**

4.1. The attached procurement report prepared by the Fund's advisors Hymans Robertson includes the following:

- Manager presentation details
- Recap of the proposed investment
- Infrastructure characteristics
- Recommended investment managers and summaries
- Suggested interview questions
- Manager scoring sheets

4.2. Members are asked to review the report and appoint at least one infrastructure manager as per the recommendations set out in Section 2 above.

## **5. FINANCIAL IMPLICATIONS**

5.1. The decision has been made to disinvest from equities and seek a more diversified portfolio, to reduce the concentration risk inherent to an equity weighted Fund where underperformance relative to expectations would impact heavily on the Fund's value and ability to meet its funding obligations. Although equity earnings have grown in recent months, the advice from the Fund's advisors remains that the scope for strong earnings growth is limited and that the fundamental drivers for growth still point to low long-term returns.

5.2. The financial risks inherent to an investment in infrastructure are explained in more detail in the accompanying report, but include currency risks, liquidity risks, construction risks and regulatory risks.

5.3. The Fund will incur transaction costs when selling equities, as well as minimal fees to hold sales proceeds in a cash account with the Fund's custodian. An approach to the sale of equities is yet to be agreed by Members, but may include a staggered approach in line with the capital drawdowns issued by the chosen infrastructure manager, or the advance selling of equities equal to the total committed amount in order to reduce the risk of continued exposure to equity markets.

## **6. LEGAL IMPLICATIONS**

6.1. It is within the powers of this Committee to make strategic investment decisions, including the review from time to time of the appointment of fund managers, and to delegate the transactions relating to these decisions to the Executive Director for Resources and Regeneration.

6.2. The Pension Regulations require that the Council has regard to the proper advice of its expert independent advisors in relation to decisions affecting the Pension Fund. They must also have regard to the separate advice of the Chief Financial Officer who has statutory responsibility to ensure the proper administration of the Council's financial affairs, including the administration of the Pension Fund.

## **7. CRIME AND DISORDER IMPLICATIONS**

7.1. There are no crime and disorder implications directly arising from this report.

## **8. EQUALITIES IMPLICATIONS**

8.1. There are no equalities implications directly arising from this report.

## **9. ENVIRONMENTAL IMPLICATIONS**

9.1. There are no environmental implications directly arising from this report.

## **APPENDICES**

The full procurement report is attached for Members only. Representatives from the Council's appointed advisors Hymans Robertson will provide a recap of the process to be followed.

## **FURTHER INFORMATION**

If there are any queries on this report or you require further information, please contact:

David Austin, Head of Corporate Resources on 020 8314 9114 or at [david.austin@lewisham.gov.uk](mailto:david.austin@lewisham.gov.uk)

Robert Browning, Principal Accountant – Treasury & Pensions on 020 8314 6274 or at [robert.browning@lewisham.gov.uk](mailto:robert.browning@lewisham.gov.uk)