MINUTES OF THE PENSIONS INVESTMENT COMMITTEE

Thursday 8 February 2018 at 7pm

PRESENT: Councillors Ingleby (Chair), Hooks (Vice-Chair), Johnston-Franklin, Muldoon, Ogunbadewa, Maslin. David Austin (Head of Corporate Resources), Sarah Assibey (Clerk).

Also Present: Andrew Elliot (Hymans Robertson), Rebecca Craddock-Taylor (Hymans Robertson), Katie Jupp, Paul Tebbit and Andrew Graver (BlackRock).

Apologies: Councillor Best.

1. **Declarations of Interest**

   No interests were declared.

2. **Minutes of 14 November and 25 September**

   The minutes were declared as an accurate record.

3. **BlackRock Fund Manager Selection**

   BlackRock representatives, Katie Jupp, Paul Tebbit and Andrew Graver, gave a presentation on their Lewisham Pension Fund mandate. The following points were discussed:

   3.1. Regarding the assets BlackRock are managing on behalf of LBL, the total value as at December 2017 is £503m. The performance of the portfolio, the benchmark return for 2017 was 11.05% and the return of the portfolio was 11.44%.

   3.2. Attribution does not change too dramatically quarter on quarter. Relative performance tends to come from securities lending (these funds lends assets out to borrowers in exchange for an income) and from index changes and training (indices periodically change- the index providers will re-cut which companies are eligible to be in the benchmark).

   3.3. From the UK funds in Aquila Life, there were 7bps from litigation- this was from the class action against RBS from the financial crisis. The class action paid some money back to shareholders so that went back into the Fund for the benefit of the Fund.

3.4. When rebalancing transaction cost, they are not significantly different from life funds- transaction costs are really levied at the stock level. What BlackRock then seek to do within an index fund, is to take advantage of their internal market rate, for example. Different portfolios will trade different stocks in different directions because the different investors will have different motivations.

3.5. The impact over a period of time is not very volatile. There other market participants that look at index rebalance trades with the objective to make money out of those looking to track benchmarks. Therefore BlackRock are very mindful of this and what other index fund managers are doing and the available liquidity.

3.6. In terms of dividends- all of the funds are returned funds, so every dividend that's been paid into the portfolio is re-invested into the portfolio. There will be periods of time where there is more income, particularly in a market like Europe where there is a dividend season. The funds themselves are not distributing any income, they are re-investing that. The yield of the fund will be around 2% which will represent the income being re-invested. Regarding securities lending, there are lending trades which are around dividends.

3.7. With pooled fund investments, BlackRock run the engagement and corporate governance on behalf of the client under a corporate governance policy. A delegated team of people deal with corporate governance and they exercise the rights to vote.

3.8. The BlackRock UK property fund is a large fund, offering scale, yield, diversification and liquidity. There are 288 investors, trading £1.2bn traded on the secondary market since 2012. There are 79 investments with a net asset value of £3.38bn and a historic yield on 3.2%.

3.9. With Brexit and current retail challenges, it is ideal to be weighted away from central London offices, high street retail and towards those sectors that will perform in a counter-cyclical manner e.g. primary healthcare, student housing and industrial and logistics.

3.10. The fund is overweight in industrial sectors. The fund has a unique holding in alternative aspects- 99 doctors surgeries are letting long leases, backed by the government spread around the country. The fund also has prime student accommodation. It is underweight in offices more likely to be vulnerable under Brexit and the UK's high street.

3.11. A property fund should be defensive and long term. BlackRock are focused on growing distributable income i.e. core income (primary healthcare), enhanced income (BlackRock Industrial Trust and student accommodation) and manufactured income (build-to-hold logistics). The core income seeks income driven returns from core defensive investments. The enhanced income aims to generate alpha by enhancing income through asset management and the manufactured income looks to create alpha through development to create long term income.

3.12. BlackRock also have a team focused on driving value from the portfolio. There are assets which can add value by finding a more valuable use for them. In Southwark, they are working to secure planning consent for a mixed use scheme.

3.13. Last year, the fund returned 10.3%, which is just above the benchmark. The property fund's overweight sectors forecast to outperform post Brexit. Strategies are focused on income generation across the risk curve. The fund offers scale, diversification and liquidity. Blackrock's portfolio is very liquid- holding approximately 4% in cash.

3.14. BlackRock's alternative assets are great to have in a stabilized market and in a forming market, but are unlikely to perform as well as other assets like central London offices in a rising market.

3.15. This is fund which is believed to outperform in Brexit times. The strategies are clear which is important for a large and long term fund. The fund has development and leasing opportunities to be able to push performance ahead of the market levels. In any investment in real estate, this is an unusual fund because it can offer scale, diversification and liquidity- not just property level liquidity but also the secondary market liquidity.

3.16. Replication is if an index has 100 constituents, the manager will hold 100 stocks at the benchmark weight, so it will fully replicate that index exposure. This is possible where the portfolio is sufficiently liquid. Where a representative sample is held, this will in addition be sufficient to what looks like the full benchmark.

After the presentation, the Committee discussed the following:

3.17. As a core strategy, BlackRock is a manager LBL has supported in the past. Although this fund is big enough to trade units on the secondary market, lower cost is not always attainable. A property fund is a long term investment- fundamentally it is a buy and hold investment.

3.18. No property managers are CIV compatible as property is not yet an asset under the London CIV. It would appear that BlackRock are one of the likely candidates, although there is no certainty.

RESOLVED that along with the CIV update, the Committee will defer further action and revisit this decision in the Business Plan in the new financial year.

4. Infrastructure Shortlist and Manager Summary

4.1. From the Investment Strategy Review in 2016, it was concluded that LBL can improve the risk of balance and return within its fund by reducing the allocation to equities and therefore reducing the equity risk exposure, and diversifying the portfolio into some alternative asset classes- one of those being infrastructure.

4.2. The report asks for the Committees agreement to bring all 3 of the managers discussed to the interview. If there is a preference to interview just 2, that is also an option. Ultimately, Hymans would recommend that just one manager is appointed. It is a 6% allocation, and based on end of December figures, is approximately £80m. The governance and monitoring that is required around infrastructure, which is generally alternative asset classes, is slightly higher so one manager is recommended.

4.3. There are various ways of gaining exposure to the asset in infrastructure. Hyman's preference would be to invest in an open-ended fund. Most infrastructure funds are generally closed-ended which would mean and investor would commit an amount of money to the fund. The investment manager would then go out and seek deals and overtime they withdraw that money down, hold it for a period of time and then return it back. With open-ended funds, they already have a number of underlying assets, so are very transparent as to what is being purchased. Open-ended funds are also slightly longer term and hold assets for a much longer period of time.

4.4. Because of the reduction of equity exposure it is desirable to have a short draw-down period. The draw-down period does range quite drastically, but generally, closed ended funds take much longer to invest money.

4.5. The benefits of investing in infrastructure include a stable, predictable cash-flow as the assets are a monopoly. There is also a large initial cash outlay- when managers are purchasing infrastructure assets they will pay a big sum, and that will be made back over time. It requires commitment from a large number of investors as well and they offer long term protection as well.

4.6. All the managers recommended by Hymans are open-ended funds. Of the 3 shortlisted, 2 are more traditional- JP Morgan and IFM- they invest globally in generally economic infrastructure assets. Aviva on the other hand is UK focused, buying assets only within the UK. They have a focus on renewables and that sector of the infrastructure market. IFM and JP Morgan are both US dollar based so will carry some currency risk. IFM do offer a GPP-hedged share class however.

4.7. The CIV does not currently offer infrastructure investment options. Understanding that there may be some time before the CIV develop some solutions, Hymans are still supportive of moving forward with this investment now, and using managers outside of the CIV.

4.8. The purpose of investing in infrastructure is to provide the better balance of risk and return across the LBL portfolio and ultimately reducing equity exposure. I9nfrastruture takes some time to invest in, so there are decisions to be made as to whether to continue to hold equities until the appointed manager pulls down that capital. Another option is to subsequently dis-invest and hold it as cash. Other options were detailed in the report.

RESOLVED that the Committee will hold a meeting in March to interview managers for the Fund.

5. Investment Strategy Statement Update

5.1. David Austin presented draft updates to the Fund's Investment Strategy Statement (ISS), which are reviewed annually to ensure it is compliant and meets the requirements of the LBL Fund.

5.2. The Committee discussed and considered that the following should be included:

- Climate change is a financial risk and must be considered, alongside the opportunities set created by low carbon transition across all asset classes
- Divestment- particularly to use as a consistent response for any potential lobbying groups

6. Draft Business Plan 2018

6.1. Head of Corporate Resources presented the draft Business Plan for 2018, prepared by the Fund's advisors Hyman Robertson. It is to evaluate the main investment items that are to arise during the year and should be updated and reviewed regularly by officers and Members.

6.2. The draft is subject to change depending on the needs of the Committee, but should be used as a guidance tool to aid longer term planning for the Fund.

6.3. The Chair suggested that Members of the Committee should undergo training to gain wider understanding of "green" investing, climate change affecting fiduciary responsibilities and private equities. Fund of Fund training in private equity was also suggested by Hymans representatives

RESOLVED Committee agree to the contents of the Business Plan and the suggestions put forward have been noted.

7. Quarterly Performance Update

7.1. Hymans representatives presented this report which summarises the quarterly performance of the Pension Fund investment portfolio. The following key points were made:

- The Investment Perspectives Publication which is titled "Capital Markets" was cascaded to members as a document which evaluates various opportunities in the investment market currently and options for LGPS
- Investments have increased to 46.9m over the quarter. Generally, performance was good over the quarter. Schroder's and Blackrock are both in line with their benchmarks.
- Invesco and HarbourVest did underperform. Invesco underperformed as their strategy was quite defensive.
- 3% allocation of the Fund has been committed to Pemberton and was finalised during the quarter. A Partners update will be provided after consultation with international legislation.

RESOLVED the report was noted.

8. General Update

8.1. David Austin presented the report summarising important updates from the last meeting. The following key updates were given:

- Since the last meeting, The Pension Board convened. The board will meet again in March
- To maintain professional status and under MiFid regulations, it is imperative that new membership continue training under the Committee.
- Eleven applications to opt-up to processional client status were submitted to fund managers, the Fund's advisors and custodians, and the London CIV ahead of the MiFID II deadline on the 3rd January 2018. All applications were successfully approved
- None of the funds launched by the CIV have been funds Lewisham are invested in or planning to invest in; there are plans to launch additional equity funds later in the year
- Following the decision to invest with Partners Group and Pemberton at the meeting of PIC on 25th September 2017, and in accordance with the Committee's decision to allocate 6% of the Fund's assets to multi-asset credit mandates.

RESOLVED that the report was noted.

The meeting finished at 9.25pm