PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	Pensions Investment Committee – General Update		
KEY DECISION	No	**Item No:**	9
WARD	N/A		
CONTRIBUTORS	Head of Corporate Resources		
CLASS	Part 1	**Date:**	28 June 2018

1. PURPOSE

1.1. This paper provides members with an update on several general pension related matters in the last quarterly period.

2. RECOMMENDATIONS

2.1. Members are asked to note the contents of the report, and agree to the following recommendations:

- To agree to the dissolution of the London Pensions CIV Sectoral Joint Committee (PCSJC) in light of the new governance framework, and to delegate the signing of the written notice to the Chief Executive, as per section 4.5.
- To sell off 6% of the Fund from our equity holdings with UBS in order to fund the new infrastructure mandate, as per sections 4.6 to 4.12.
- To agree that officers review the procurement strategy for pensions advice and actuarial services to ensure this is in line with good practice, as per sections 4.18 to 4.19.
- To complete the confidence assessment tool as per section 4.29, to support Members' future training needs.

3. BACKGROUND

3.1. This briefing will provide a summary of current topics relating to the Pension Fund and pensions in general, and address standing items on the agenda, following on from actions requested in previous meetings.

4. CURRENT CONSIDERATIONS

London Collective Investment Vehicle (CIV) – General Update

4.1. The Pensions CIV Sectoral Joint Committee (PCSJC) last met on 14 March and are due to meet again on 12 July for the AGM; the Chair of PIC represents Lewisham Pension Fund's interests at meetings, whilst the Head of Corporate Resources and Principal Accountant are also in regular contact with the CIV.

4.2. Officers met with the CIV in early June, providing updates on Lewisham’s Fund and reiterating our commitment to the pool. The CIV presented their draft Responsible Investment Policy, see Appendix 1, detailing the approach the pool aims to follow in integrating ESG issues in its investments. The framework recognises that there are a range of views across London and that the CIV’s policy should not cut across strategies adopted by individual funds.

4.3. To date, none of the funds launched by the CIV have been funds Lewisham are invested in or planning to invest in. The CIV currently manages thirteen operational funds; eight are equity funds, four are multi-asset funds, and there is also a multi-asset credit/fixed income fund; there are plans to launch additional fixed income funds later in the year, including global bonds, liquid loans and private debt.

4.4. A letter from the Chief Executive of the CIV sent to London Boroughs on 13 June set out the new governance framework to be implemented from 12 July onwards, pending approval at the AGM. The key changes are as follows:

- The appointment of two more Non-Executive Directors to the London CIV board, representative of the shareholders, for three year terms. A Treasurer will also be nominated as an Observer.
- A new Shareholder Committee which will act on behalf of shareholders as a consultative body, comprising 12 Members (8 local authority Pension Committee Chairs or leaders of local authorities, and 4 local authority Treasurers). Nominations for membership will be made via the London Councils collective political processes and the Society of London Treasurers in the case of the Treasurers, for ratification at the CIV AGM on 12 July.
- The first meeting of the Shareholder Committee will be held on 19th September. There will be two shareholder meetings per year, one to approve the budget and an AGM.
- To complement the new shareholder governance arrangements there will also be an improved framework for client services, informed by shareholder consultation, including a Service Level Agreement and programme of events for clients collectively.
- These new arrangements will replace the Pensions CIV Sectoral Joint Committee (PCSJC), which will be dissolved. Existing shareholder rights under the Shareholders’ Agreement will not be altered, and a Deed of Amendment will be drafted by the CIV to update the Agreement where necessary.

4.5. Written notice is required to be given by London local authorities to revoke the delegation of the discharge of relevant functions to the sectoral joint committee, and Members are asked to authorise this dissolution and delegate signing of the notice to the Chief Executive.

Infrastructure Procurement and Funding

4.6. Following the decision to invest in J.P. Morgan’s Infrastructure Investment Fund at the meeting of PIC on 28 March 2018, officers are seeking to obtain external legal advice on the fund documentation which has now been received. The next capital call for the fund is on 2 July; should the necessary legal assurance be received in time, officers will seek to complete on-boarding to meet the July capital call.

4.7. The 6% investment into the fund will require the sale of equities from our passive mandates with BlackRock and UBS. As at 31 March 2018, this equated to approximately £78m. For the first phase of the Fund's rebalancing, equities were sold in equal proportion across both passive mandates; Members are asked to instruct officers how to allocate the equity sales between managers to generate the cash required for the infrastructure investment.

4.8. The options available to Members are as follows:

A. Sell equities in equal proportion between UBS and BlackRock
B. Sell equities from BlackRock only
C. Sell equities from UBS only

4.9. Since the last Fund rebalancing reduced manager fees have been negotiated with Blackrock such that UK and global equities attract a fee of 0.005% per annum, and emerging market equities 0.010 % p.a. (or a minimum of £15,000 in total per year). In comparison UBS fees are on a tiered basis, with the first £150m of assets under management charged at 0.05%, and everything above £150m at 0.04% (with a minimum annual fee of £50,000).

4.10. The BlackRock fee reduction negotiated by the CIV also results in the Fund's assets being considered as pooled assets under the government's definition of pooling.

4.11. Over the past 12 months UBS report overall fund performance (including bonds) at +2.4%, exactly in line with its tracking benchmarks; over 3 years it was 8.8%, again in line with its tracking benchmarks. Blackrock report their 12 month performance as +2.64%, +0.29% higher than the benchmark indices, and over 3 years 9.10%, 0.33% higher than benchmarks.

4.12. Officers recommend option C given the comparisons between BlackRock and UBS in cost and performance, and the link to the CIV that the Fund would maintain by keeping its BlackRock holdings.

Low Carbon Passive Funds

4.13. Officers have been passed information on a selection of low carbon passive equity funds offered by BlackRock and Legal and General (LGIM), which are being brought to the attention of Members. Although there are no current plans to bring any of the funds onto the CIV platform, those which are ACS funds could theoretically be integrated at some future point. Both BlackRock and LGIM offer funds that track the MSCI Low Carbon Index which minimises carbon exposure and targets a 0.30% tracking error to the parent tracker, the MSCI All Country World Index. The index reduces exposure to carbon emitting companies along two main dimensions, current carbon emissions and potential emission from fossil fuel reserves, whilst maintaining global equity exposure. Constraints built into the index are designed to limit deviation from the parent tracker with regards country and sector, although there is no weight constraint to the energy sector. The 0.30% target tracking error is estimated to result in an 80% reduction in carbon exposure.

4.14. Alternatively, LGIM's 'Future World Fund' tracks the FTSE Russell All World Index but excludes companies involved in the production of controversial weapons and uses balanced factor weighting to create a 'Climate Balanced Factor' Index which is deliberately tilted to be underweight on high carbon stocks and favour low carbon /green stocks. This inbuilt tilting reduces the weighting of stocks in coal companies by 75%, coal and gas producers by 25%, and tilts the fund towards companies with lower emissions on a sector neutral basis, and those companies with greener revenues.

4.15. The BlackRock fund was launched in December 2017 and is a Tax Transparent Fund (TTF) which may be held in a LGPS Pool ACS structure, avoiding future transition costs should the fund move into the CIV. It has an annual charge of 0.03%, which compares to our current CIV-reduced BlackRock fee of 0.005%. Since launch its performance relative to benchmark is + 0.29%.

4.16. The LGIM MSCI World Low Carbon Target Index Fund is a Unit Linked Life Insurance Fund and was launched in July 2015. Its quoted annual charge is 0.24%. Since launch its performance relative to its benchmark is +0.02%.

4.17. The LGIM Future World Fund is a Unit Linked Life Insurance Fund and was launched in February 2017. It has a total annual fee of between 0.275% and 0.35% depending on the size of the investment. Since launch its performance relative to its benchmark is +0.05%.

Retendering of Advisory Services

4.18. The Fund's current pension advisors and actuary, Hymans Robertson, have been contracted to the Council for many years on a rolling contract basis. Fees for regular work are agreed each year or quoted for on an as needed basis for one off pieces of work, e.g. procurement of new mandates. The Council also subscribes to a number of their core products paid for annually, e.g. the Lewisham Pension website and Club Vita.

4.19. Good procurement practice recommends regular retendering of services to ensure that the scope, service standards and cost effectiveness of suppliers is challenged to support continuous improvement. Officers therefore propose to review the Council's procurement strategy for both the advisory and actuarial elements of support. This will ensure the Pension Fund can be reassured it continues to secure the correct advice and support in a manner that represents value for money.

General Data Protection Regulation (GDPR)

4.20. The GDPR came into effect on 25 May 2018 and replaces the Data Protection Act (DPA) 1998 legislation. Overall the GDPR gives individuals more say over what organisations can do with their data, introduces tougher fines for non-compliance and breaches, and makes data protection rules more or less identical throughout the EU.

4.21. As a data controller, Lewisham Pension Fund's use of individual data is principally on the administration side in the processing of member contributions and benefits, and as such an updated Privacy Notice has been created by the Council's internal Pensions Team based on an LGA template created by law firm Squire Patton Boggs. The Notice is available on the Fund's website at http://www.lewishampensions.org/media/3916/full-privacy-policy.pdf, and is also included at Appendix 2.

4.22. Officers have completed contract variations with the Fund's custodian and investment advisor in relation to GDPR, and will continue to work with fund managers and other bodies as necessary to ensure GDPR compliance post May 2018.

Fund Benchmarking

4.23. The Fund's benchmarking and performance analytics provider PIRC have released their final league tables for 2017/18, comparing overall Fund performance and asset class performance across all Funds in their Universe (which comprises 61 Funds). The final report is appended at Appendix 3, and some of the findings from their analysis (not included in the report) include the following points:

- In 2017/18 the average fund achieved a return of 4.5%, which was below the long term average but ahead of inflation at 3.3%. Lewisham Pension Fund's return on investments was 2.9%, ranking the Fund in the bottom quartile of the Universe.
- In general asset returns across the Universe were tightly grouped, and as a result strategic asset allocation had less of an impact than usual. Bonds returned 1% for the year, equities 4%, and alternatives 6%.
- Property was the best performing of the major asset classes, returning 10% for the year. Diversified growth funds, with an average return under 2%, performed poorly relative to other assets and their benchmarks.
- Equity exposure fell to its lowest level since the LGPS began, reducing from 62% to 55% of the average Fund.
- Multi asset credit and diversified income strategies gained ground.
- For the first time there has been a year on year reduction in the level of passive investment (albeit small).

Pension Board – General Update

4.24. The Pension Board last met on the 6th March 2018. The Board agreed on an updated Terms of Reference as well as Code of Conduct and Conflicts of Interest Policies. Members were asked to complete a learning needs analysis to identify areas of low or limited knowledge, and a work plan will be devised to focus on the results of these analyses as well as review key areas of governance and administration that the administering authority is responsible for.

4.25. The next meeting of the Board is scheduled to take place in July 2018.

Training

4.26. A selection of conferences, workshops and seminars for the second half of 2018 has been listed in Appendix 4. Should members find any of the sessions of interest, or have identified other training they would like to attend, please can they keep the Governance Team or Principal Accountant for Treasury and Pensions informed.

4.27. The recommended sessions form part of the main training offering to Members; other sessions arranged by fund managers or the Fund's advisors will also form part of regular Committee business. It is vital that Members develop and maintain their knowledge of the overall sector, and in particular the LGPS, for preserving our professional client status under MiFID II regulations; should Fund Managers deem the Committee to be lacking in knowledge or ability, it is within their powers to withdraw their services.

4.28. Hymans Robertson have developed the first ever LGPS National Confidence Assessment to assess Members' confidence on eight topics regarding the roles and responsibilities of pension fund management. The results of this survey will help to prioritise and focus future training for Members.

4.29. Members were emailed the link to the survey on 8 June 2018. Officers recommend that Members complete the survey as soon as possible, so that the results can be analysed and reported back to us by the Fund's advisors to inform future development needs.

4.30. Officers continue to recommend the excellent training tools available via the Pensions Regulator at: http://www.thepensionsregulator.gov.uk/public-service-schemes/learn-about-managing-public-service-schemes.aspx.

4.31. In addition, as members have previously reported that this was a helpful resource, Russell's Fiduciary Handbook – "A step-by-step guide to pension fund investment strategy" is available online at: https://russellinvestments.com/-/media/files/emea/institutions/russell-investments-fiduciary-handbook-combined.pdf.

5. FINANCIAL IMPLICATIONS

5.1. There are no financial implications directly arising from this report.

6. LEGAL IMPLICATIONS

6.1. There are no legal implications directly arising from this report.

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

Appendix 1 – London CIV Responsible Investment Policy
Appendix 2 – Lewisham Pension Fund Privacy Notice
Appendix 3 – PIRC League Tables
Appendix 4 – Training and Conference Programme 2018, Quarters 3 and 4

FURTHER INFORMATION

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

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