MINUTES OF THE PENSIONS INVESTMENT COMMITTEE

Tuesday 11 September 2018 at 7pm

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

Also present: Rebecca Craddock-Taylor (Hymans Robertson), Nick Jellema (Hymans Robertson), David Austin (Head of Corporate Resources), Robert Browning (Principal Accountant), Sarah Assibey (Clerk)

Apologies: Councillor Feis-Bryce

1. **Declarations of Interest**

   Councillor Best and Councillor Muldoon declared their interest as recipients of the Pensions Scheme

2. **Minutes**

   The minutes of the last meeting were held as an accurate record.

3. **Exclusion of Press and Public**

4. **Invesco- Fund Manager Presentation**

   Georgina Taylor and Stuart Boucher of Invesco presented their report on Invesco Perpetual Global Targeted Returns Fund. The following was discussed:

   4.1. Invesco is an investment firm solely focused on investment management. The Global Targeted Returns Strategy launched in 2013 managed by the multi asset team. There is £21.9bn in assets under the strategy including £12.7bn in the UK-domiciled fund.

   4.2. The multi asset strategy targets returns and risk; the target return is 3 month cash plus 5% on a rolling, 3 year annual basis and the target volatility is less than half of global equity volatility over a rolling, 3 year period. The aim is get diversification into the portfolio to generate risk. Invesco work with typically 20-30 individual investment ideas across asset classes with a time horizon of 2-3 years.

   4.3. The 3 stages to achieve this portfolio is research to approve ideas; fund management where ideas are combined; and implementation of the ideas. No individual investment asset dominates the portfolio but they all do hold similar weight therefore enabling risk management.

   4.4. The LBL investment into Invesco Perpetual Global Targeted Returns Pension Fund has a realised volatility of equity risk of 27% since inception. The target risk is 35-40%. This number could grow over time. The 27% is due to not having enough ideas within the portfolio. Risk is need to diversify the fund and meet the half global volatility target. The average holding period for ideas is 2 years for Invesco, however, they are able to gradually remove ideas out of the portfolio fairly quickly where necessary.

4.5. The committee felt that other than the performance point of the last 4 quarters, they are still the preferred multi asset manager. Their team is stable but unfortunately they do not have their ideas right. The Committee will keep watch of their performance and strategy over time.

5. Pemberton- Fund Manager Presentation

James Anderson and Mark Hickey of Pemberton gave a presentation on the Pemberton European Mid-Market Debt Fund II. The following was discussed:

5.1. The platform is based on intuitional lending with fund flexibility. The direct lending borrower base is made up of mid-market companies with borrowing needs below 200mEUR (circa 50% of their enterprise value). Pemberton refers to senior secured lending where they take security over the shares of the borrower and all unencumbered assets, and covenance.

5.2. Pemberton have 20 pension funds across their asset class currently. It is a very resilient product this mid-market direct lending loan contracts are individually negotiated. Lenders are closely involved in the negotiations and the marker us highly relationship-driven. The pricing is E + 525-800 and is illiquid.

5.3. The strategy targets attractive returns from senior loans to European mid-market corporates; 25-30 senior secured loans; and a target gross of 8.5% IRR, 7.0% net. It is a well-diversified portfolio by country and sector and has excellent downside protection from first ranking seniority and financial covenants.

5.4. The fund performance is in line with the target performance of 7% net returns. The current fund size is 985mEUR from 22 investors, with the next close target for end of September is 500m. Over 3.5bn of indicative further demand from investors for investment between Q3 and Q4. The target final close is 2.5bn-3bn in December. There are currently 15 investments totalling 7m with a robust pipeline of deals underway. The portfolio is well-diversified senior debt portfolio with 3-5% borrower concentration

5.5. After equalisation, the pension fund will receive some money back (40%). From a cash flow perspective, there are allocations in this sector because the money begins to earn 7-8% from cash flow, straight away. Expected life is to be around 2 1/2 -3 years.

5.6. Pemberton require their borrowers to fill in a questionnaire before investing, firming their compliance with ESG statutes that apply to their business

6. Private equity

6.1. There are higher returns on offer, investing in private equity-unlisted, smaller, mature companies. The target allocation is 3%. The Committee last committed to private equity in 2014. The report concerns that if there are no commitments in private equity soon then the 3% investment will fall quite rapidly, the investments reaching maturity and the capital being returned around a 10 year mark.

6.2. The recommendation is to continue with the existing approach which is investing in a US private equity fund of funds with Harbourvest and also further investments in another Harbourvest fund of funds that is investing elsewhere in the globe. The recommendation is the there is a $25m investment this year to the US fund and in 2019 a further $25m. Hymans believe this investment will keep the LBL portfolio around the 3% target level. It is important to keep investing in private equity to offset the money that is being paid back by some of the maturing funds.

6.3. Alongside the suggested commitments in 2018, in 2019, Hymans are suggesting private equity as an annual item on the business plan for the committee, to discuss further annual commitment to private equity

6.4. One of the existing private equity commitments is listed on the FTSE 250 that invests in Harbourvest closed ended private equity funds. This vehicle invested in 8 years ago- one the concerns with maintaining the investment is that there is overlap within that listed private equity vehicle with the other closed ended commitment to specific Harbourvest funds. The recommendation on this £12m commitment is that, when committing to the other private equity funds and they are drawn down- that money is taken from the listed £12m and remove the overlap issue.

6.5. The London CIV currently does not offer opportunity to invest in private equity, so it is best to keep money committed and maintain the target allocation. By the time the next launch of the vintages, the opportunity may arise so LBL can begin committing to the CIV and building that portfolio.

RESOLVED The Committee agreed to this recommendation (option 3 of the report)

7. Property Allocation Review

Hymans Robertson consultants presented this report. The following was discussed:

7.1. The current property target allocation in the Fund is 10% but the current actual allocation is 8.6% representing a shortfall of £18m

7.2. Members are recommended to i) consider the report prepared by the Fund's advisors ii) agree to maintain the current underweight allocation, whilst monitoring developments in the current Schroders team and any property proposals developed by the London CIV.

7.3. Advisors are concerned about recent changes with the current allocation to Schroders as the have had some changes to their team and some recent concerns regarding their property mandate with LBL. The nature of the property mandate is a fund of funds mandate and are not investing directly in property on behalf of LBL. They are using core commercial managers and amounts to £120m of LBL assets.

7.4. The options suggested are to increase investment with Schroders (£15-20m further investment), to find a new manager using the £15-20m allocation or to maintain the underweight allocation

RESOLVED members agreed to the recommendation to maintain the underweight allocation.

8. Investment Performance for the Quarter End June 2018

Hymans Robertson consultants presented this report. The following was discussed:

8.1. There has been increased growth in the markets over the last quarter since the year. The US has recorded its highest growth since the start of the year and it is key trend that a lot of investment managers are checking as to whether that can be continued.

8.2. The UK's growth increased over the quarter as did Japan. China's growth has depleted due to the US trade tariffs

8.3. Within UK there has been a fall in inflation. The rate rises have been occurring globally- the UK doing so in August. In currency, US dollar has been performing very well. The pound sterling has been very weak, because of Brexit or a potential no deal Brexit.

8.4. Most assets in the Fund continue to be performing very well. Equity markets have performed very well and the Blackrock and UBS allocations have returned just over 5%. The overall increase in the Fund's assets to £1.36bn.

RESOLVED the report is noted.

9. Investment Beliefs

This exercise is practiced as it is good governance for pension funds and committees to have these beliefs as it provides a level of consistency with thinking. It is making sure that the committee are not making quick changes to the strategy or long-term targets. Hymans produced a questionnaire for members to complete, and through those answers a set of beliefs was drafted. The committee reviewed them and the following was discussed.

9.1. Under "Governance", some members expressed that the wording under that statement "the Fund does not have the governance structure in place to take tactical views and market timing is very difficult" can be difficult to comprehend as there are two statements in one and it could be seen to be ambiguous. The consultants explained the statement further stating the committee may not have the governance structure, time or data to hand to make the tactical decisions, similarly to advisors and should therefore delegate that responsibility to investment managers.

9.2. Under “Investment Strategy”, the statement “investing in assets that the Committee does not understand is an unrewarded risk. Hence the Committee should not invest in anything they do not fully understand”, which advisors further explained that the committee therefore delegates some asset selection decisions to specialist managers. While it is important that the committee does have some good understanding of investment, the managers have the expertise and are being paid to make such decisions. Officers are also continuously offering training opportunities to members to help their ongoing understanding of their knowledge.

9.3. Under “Investment Structure”, the statement “Equities are expected to generate superior long term returns”, advisors gave an example of equities outperforming cash and gilts over 5, 10 and 18 years, therefore equities are likely to outperform over very long term periods. Regarding the statement “Currency risk should be managed but at a reasonable cost and within governance requirements”, advisors explained that because there is currently no currency hedging in place which means that the returns of equities in the US, for example, are denominated in U dollar and transferred to the UK and there is no protection predefining the exchange rate that will be received in the future. This is important in the short term but less important in the long term.

9.4. Regarding the statement under “Responsible Investment”, “the committee should accept the voting policy of its investment managers instead of developing its own policy”, the responses from members appeared to be on the “disagree” aspect. Advisors explained that voting policies can be complex and that the committee should consider if the expertise and resource to actively vote is available.

RESOLVED the report was noted.

10. General Update

The Head of Corporate Resources presented this report and highlighted the following:

10.1. The CIV currently manages seventeen funds, none of which Lewisham are currently invested in. representatives from the CIV will be attending the November PIC meeting to provide updates on their progress.

10.2. Officers have requested data on carbon exposure from the Fund’s passive managers, Blackrock and UBS, which will be used in conjunction with the work undertaken in the wider portfolio.

10.3. The draft update to the Investment Strategy Statement was presented at the February meeting. The final ISS was appended at the meeting of which members agreed to the process.

10.4. The next Pension Board is meeting in October after rescheduling. The Board have asked for a review on risk basis of the Council's arrangements for complying with the Pension Regulator's requirements.

10.5. In the Confidence Assessment by Hymans that members completed, the overall indication is that the Committee feels less confident in all areas of pension fund management. Training and learning opportunities will be specifically presented to the Committee in the coming months to address these areas.

10.6. Members are advised to make the Governance team or officers aware of any training opportunities they would like to attend. The list of upcoming workshops, conferences and seminars was appended.

RESOLVED members agreed to delegate the appointment of a carbon footprint provider to officers, with a Single Tender Action report to be signed off at Executive Director level.

RESOLVED members agreed to register with the Nation LGPS Procurement Frameworks and delegate this process to officers.

After Hymans Representatives left the meeting the committee discussed the pending investment consultant procurement.

10.7. Ideally, this would have taken place before Christmas so the selected advisors can undergo actuarial review in the New Year.

10.8. Officers recommended that the process is deferred as the triennial evaluation provide financial and HR implications, but would like to ensure that the procurement takes place within the current administration.

RESOLVED members agreed to defer the procurement.

The meeting finished at 9.57pm