

## **PENSIONS INVESTMENT SUB-COMMITTEE**

Minutes of the meeting held at 7.30 pm on 16 November 2016

### **Present**

Councillor Teresa Te (Chairman)  
Councillor Keith Onslow (Vice-Chairman)  
Councillors Eric Bosshard, Simon Fawthrop, David Livett,  
Russell Mellor and Richard Williams

### **Also Present**

Alick Stevenson, AllenbridgeEpic Investment Advisers

#### **20 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS**

Apologies were received from Brian Toms, Employer Representative, Local Pension Board and Jane Harding, Employer Representative, Local Pension Board.

#### **21 DECLARATIONS OF INTEREST**

There were no declarations.

#### **22 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 21ST SEPTEMBER 2016 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION**

The minutes were agreed.

Members were also updated on ongoing matters affecting the L B Bromley Pension Fund.

At a meeting with the Secretary of State for Business, Energy and Industrial Strategy, the Director of Finance raised the following matters:

- pension liabilities being a disincentive to small providers in commissioning; and
- Funds having the option in the future to invest in a product(s) from another pool.

Government continued to be interested in promoting infrastructure for investment by Local Government Pension funds; however, the Council's preferred approach was to pursue active investment.

For the Fund's forthcoming valuation, the Council's actuary did not require an independent valuation of the Mears scheme and its gifting to the Fund. The Council's figures would be final and no valuation costs would therefore be incurred.

In work towards a new asset allocation strategy, officers, the Sub-Committee's Chairman and Vice-Chairman, and the Resources Portfolio Holder had met with Fund Managers, two representatives from the Pension Fund's investment adviser, AllenbridgeEpic, and a representative from the Pension Fund's actuary, Mercer. Various asset classes were discussed. For equity, returns in recent years had been in the region of 7% but longer term this was expected to reduce to 5% impacting on discount rates. There was general support for the value of an element of property and/or other illiquid assets in the Fund. The work was separate from the asset allocation review by Allenbridge. Findings/ recommendations from Allenbridge would be reported to the Sub-Committee's February meeting along with outcomes from the officer meeting with investors. Cash flow and liquidity were significant issues for the Fund.

It was suggested that time would be needed to fully understand a new strategy (in context of the valuation) and a workshop would be helpful. As such, officers would agree a date with Members and the Council's Investment Adviser for a workshop to be held before the Sub-Committee's February meeting.

The Fund's valuation, proposed Council contribution, and repayment period would be considered at the Sub-Committee's February meeting to be attended by the Council's Actuary.

Concerning the London CIV, it was confirmed that all London Boroughs had now joined the investment vehicle.

**RESOLVED that:**

**(1) the Minutes be agreed; and**

**(2) officers agree a date with Members and the Council's Investment Adviser for a workshop to consider the outcome of the triennial valuation and a proposed asset allocation strategy – the workshop to be held before the Sub-Committee's February meeting.**

**23 MINUTES OF THE LOCAL PENSION BOARD MEETING HELD ON 10TH NOVEMBER 2016 (FOR INFORMATION)**

The minutes were noted.

**24 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING**

There were no questions.

## **25 PENSION FUND PERFORMANCE Q2 2016/17**

### **Report FSD16077**

Details were provided of the Fund's investment performance for the first quarter, 2016/17. Additional detail was provided in an appended report from the Fund's external advisers, AllenbridgeEpic. Baillie Gifford provided further commentary on its performance and view of the economic outlook.

Information on general financial and membership trends of the Pension Fund was also outlined along with summarised information on early retirements.

The market value of the Fund ended the September quarter at £863.3m and had risen further to £882.2m as at 31st October. Overall fund performance figures were not available but the quarter's performance figures for each fund manager was summarised and an approximation provided of the total fund return.

With the WM Company (State Street) ceasing to provide performance measurement services to clients for whom they were not also custodian, BNY Mellon (the Council's main custodian) would provide performance measurement information going forward. However, as data migration had not yet completed, overall performance figures for the fund were not available. A new provider for LGPS comparator information had emerged covering a number of LGPS funds and comparator data was expected for the third quarter monitoring report.

Following transfer of LGPS members from Passenger Transport Services to GS Plus Ltd, a wholly owned subsidiary of the Royal Borough of Greenwich (RBG), the employees became active members of the RBG Pension Fund from 1st December 2015 (the transfer date). From continuing discussions, Mercer (the Council's fund actuary) had advised of an expected provisional transfer value between £1.5m and £2m. The sale of assets to generate the required funding would be determined on agreeing a final transfer value. It was proposed that the Director of Finance be delegated authority to agree the final transfer, in consultation with the Sub-Committee's Chairman and Vice-Chairman. Should the transfer value exceed £2m, a further report would be presented.

In discussion, Member agreement was suggested on the final transfer and assumptions considered. However, actuaries determined the final value of bulk transfers (linked to the Council's triennial valuation); should the actuaries dispute a transfer value, an independent actuary would determine the final sum. External Audit would also protect an actuary's independence (as required by regulations). The transfer had been agreed by Council and a Member preferred completing the transfer to reduce liabilities. The sum transfer would be effective from transfer date and any final adjustment made later. Reference was also made to the Diversified Growth Funds, one of which

was underperforming; as such advice would be sought on the continuing use of the asset class.

Following the transfer of Total Facilities Management Services, admitted body status for Amey had been agreed with effect from 1st October 2016. Transfer of a further six employees to Cushman and Wakefield was scheduled for 1st December 2016 and Cushman and Wakefield were also working to secure admitted body status (expected in advance of the transfer date).

**RESOLVED that:**

- (a) the contents of Report FSD16077 be noted;**
- (b) the estimated transfer value payable to the Royal Borough of Greenwich Pension Fund of between £1.5m and £2m be noted as detailed at paragraph 3.7.5 of Report FSD16077; and**
- (c) authority be delegated to the Director of Finance, in consultation with the Sub-Committee Chairman and Vice-Chairman, to agree the transfer (following advice from the Council's independent Pension Fund advisor) and the outcome of the actuary's negotiations, up to a maximum value of £2m, as detailed at paragraph 3.7.6 of Report FSD16077.**

**26 PENSION FUND - INVESTMENT REPORT**

Quarterly reports from Fund Managers had been circulated to Sub-Committee Members and Members of the Local Pension Board with the meeting agenda pack.

Representatives of Blackrock (Head of EMEA Product Strategy, SAE, Relationship Director, and Relationship Manager) attended the meeting, reporting on the performance of its *Ascent Life Enhanced Global Equity* portfolio for the Pension Fund.

A research based investment approach provided a diverse portfolio for Blackrock clients. Although market sentiments were difficult to assess and trend, Blackrock were obtaining an understanding in this area. Blackrock needed to ensure that its investment tools worked well in difficult times and were disappointed to underperform against benchmark in 2015 and to date in 2016. However, from inception in 2012 to 2014, the portfolio returned above benchmark and an overall return of 1.43% above benchmark was maintained to date.

Nevertheless, Members expected Blackrock to manage difficult times and it was suggested Blackrock produce an action plan to address recent poor performance. Blackrock acknowledged they were not positioned well for current conditions; however, there was no desire to overreact and a better investment balance was preferred, Blackrock having already taken action to address performance.

It was suggested there was little to support the Fund being active with Blackrock. Volatility was also expected in the next few years and rather than depend upon an historic investment system, something additional was necessary to react more quickly to markets. Blackrock needed to achieve a fast return outperforming benchmark.

Blackrock indicated that this was the first meaningful drop in performance. They believed in quantitative management, would learn from the performance drop, and not react (away) from balanced investment . There would be an increased risk to achieve a higher return. It was hard to predict the level of volatility and Blackrock preferred not to remove the core of what had been successful for approximately 20 years. There were signs of improvement and there was no complacency from Blackrock. Performance in the previous 18 months had not been good for fees paid but Blackrock would address matters for the future.

Concerning Brexit, there could be short-term beneficiaries. A weaker pound against certain currencies would benefit some companies which would have a knock-on effect. Following the referendum some 20% of Blackrock's investment process was now different with 80% of the mix of this changed to meet challenges from a more volatile world.

Should the portfolio not perform well in future, the management fee could be aligned with performance. However, Blackrock were confident in reporting an improved performance when next before the Sub-Committee.

The Blackrock representatives left the meeting and the Council's Investment Adviser noted that in a further quarter Blackrock would have been managers in the Fund for three years, and their performance could then be judged against their target to outperform the benchmark over three years.

## **27 LOCAL PENSION BOARD ANNUAL REPORT 2015-16**

### **Report FSD16079**

Members noted an Annual Report of the Local Pension Board.

**RESOLVED that the Annual Report of the Local Pension Board be noted.**

The Meeting ended at 9.14 pm

Chairman