Members Present: Cllr Dominic Twomey (Chair), Cllr Faraaz Shaukat (Deputy Chair), Cllr Edna Fergus and Cllr Jeff Wade

Observers Present: Bern Hanreck

Advisors Present: John Raisin and Colin Cartwright and Joe Peach

Apologies: Cllr Sade Bright, Cllr John White, Gavin Palmer, David Tyndall and Claire Symonds

1. Declaration of Members' Interests

There were no declarations of interest.

2. Minutes (15/03/17)

The minutes of the meeting held on 15 March 2017 were confirmed as correct.

3. Presentation from Aberdeen Asset Management

Richard Dyson, Alistair Watson and Ben Watson from Aberdeen Asset Management (AAM) provided an oral presentation to the Panel on the following areas:

- Corporate Update
- Portfolio Objective
- Performance
- Outlook- Hedge Fund strategies
- Private Equity – investment highlights

They referred to the proposed merger of AAM and Standard Life in August 2017 and considered that it would mean business as usual for the time being. In fact they felt that with private equity and hedge funds, there was a greater resource available with the merger. The Joint Chief Executives brought different skills to the business.

They highlighted specific slides in the presentation as follows:

Pan Alternatives portfolio objective- the return was not sensitive to the rise and fall of the Financial Times Stock Exchange (FTSE)

Portfolio framework- private equity was now at a 24% allocation and would rise to 40% to 50% in time. The hedge funds generated steady returns and the Kohinoor
Series 3 fund provided the Portfolio with ‘rainy day’ protection during a time of significant stress.

Pan Alternatives performance overview: this had picked up in the last twelve months to May 2017 and it was anticipated that although the 3.2% increase was currently under target, this was expected to rise in time despite hedge fund volatility.

Strategy outlook: this was good and the volatility provided an opportunity for fund managers.

Private equity (PE) is all around us- this area is growing and AAM provided some examples of private equity companies AAM invested in.

Strategy for Private Equity: AAM wanted to invest carefully over a four-year period. They wanted to mitigate the J curve and generate positive returns.

Allegro co-investment: this was an exciting opportunity.

Pipeline: AAM continue to actively review potential opportunities for the LBBD mandate: Primary, Co-Invest and Secondary. There were a number of these being considered.


This report provided information for employers, members of London Borough of Barking and Dagenham Pension Fund (“the Fund”) and other interested parties on how the Fund had performed during the quarter 1 January 2017 to 31 March 2017 (“Q1”). The report updates the Panel on the Fund’s investment strategy and its investment performance.

A verbal update on the unaudited performance of the Fund for the period 1 April to 12 June 2017 was provided to Members.

The Fund’s externally managed assets closed Quarter 1 2017 valued at £908.7m, an increase of £39.2m from its value of £869.6m as at 31 December 2016. The cash value held by the Council at 31 March 2017 was £6.8m giving a total Fund value of £915.5m.

For Quarter 1, the Fund returned 3.8%, net of manager and custodian fees, outperforming its benchmark by 0.5%. Over one year the Fund returned 18.0%, outperforming its benchmark of by 1.0%. Over three years the Fund trails its benchmark by 0.2%, with a return of 10.7.

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Over two years, most mandates were positive, with returns ranging from (1.3%) with Standish to 16.0% with Kempen. Standish and Aberdeen have significantly underperformed their benchmarks, with a negative return of 6.5% and 3.4% over
the two-year period. The property correction following the referendum result has had an impact on property but the returns over two years remain positive and has outperformed most other asset classes, apart from equities and infrastructure.

Aberdeen Asset Management had been requested to provide a presentation to the Panel at this meeting following this item and although there are grounds for concern at their overall fund performance it was noted that there had been some improvement up to the end of May 2017. AAM had been appointed as a Fund Manager two years ago with a mandate to invest in hedge funds and private equity funds.

It was noted that there remained a great deal of uncertainty in financial markets and hedge funds had performed badly in the last two years.

Members noted the report and would seek an assurance from AAM about its future returns and stability.

The Panel noted:

(i) The progress on the strategy development within the Pension Fund;
(ii) The daily value movements of the Fund’s assets and liabilities outlined in Appendix 1; and
(iii) The quarterly performance of pension funds collectively and the performance of the fund managers individually;

5. Administration and Governance report

The report covered three main areas including: Havering College of Further & Higher Education merger with Barking and Dagenham College; Pension Fund Budget 1 April 2017 to 31 March 2020 and cash flow to 31 January 2017.

It was noted that the Havering College of Further and Higher Education (HCFHE) would be merging with Barking College with the target date of 1 August 2017 for the merger. This would involve the transfer of HCFHE support staff into the Fund. This would result in a total of over 800 members, £25m of assets and nearly £30m of liabilities being transferred into the Fund. The Panel agreed to give consideration to where the assets of this merger would be invested, at their meeting in September 2017.

The Panel also noted that as part of the Council’s transformation process, several ‘arms-length’ service delivery units would be agreed in the coming year. The setting up of each delivery unit would require the TUPE (Transfer of Undertakings-Protection of Employment) transfer of staff and each Delivery Unit would need to be admitted as a separate employer to the Fund.

The Council were looking to create several different service delivery vehicles and in October 2017 Be First and the Leisure Services will be admitted to the Fund as admitted bodies. Full reports, including the contribution rates and guarantees would be presented to the Panel meeting in September 2017.
The Panel also noted an update on the London Collective Investment Vehicle (LCIV) and was linked to a recommendation in the Strategy Review report later on the agenda, liaising with the LCIV regarding the appointed managers and arrange a training day to go through potential strategy changes and the options available through the LCIV.

The Panel agreed:

i. That, prior to transferring into the Fund, HCFHE ensure that it provides sufficient contribution to enable it to have the same funding level and contribution rate as BDC;

ii. That LBH transfer the asset values calculated by the actuary as cash, which will then be invested as part of the revised investment strategy;

iii. To delegate authority to the Chief Operating Officer, in consultation with advisors, to negotiate the transfer of HCFHE into the Fund; and

iv. To delegate authority to officer to liaise with the London CIV (LCIV) regarding the newly appointed equity managers that are available via the LCIV investment.

The Panel noted:

i. That the Fund is cash flow positive;

ii. The Fund’s three-year budget for the period 1 April 2017 to 31 March 2020;

iii. That as part of the Council’s transformation process, several arms lengths service delivery units (Delivery Unit) will be agreed over the coming year, with a full report to be presented to the September 2017 Panel; and

iv. That a training day will be arranged on the potential strategy changes and the investment options available through the LCIV.

6. Business Plan Update 2017

The report updated the Panel on progress regarding the Pension Fund’s 2017 business plan. Appendix 1 provided a summary of the Business Plan actions from 1 January 2017 to 31 May 2017 and the actions for the remainder of the year.

The Panel noted progress on the delivery of the 2017 Business Plan.

7. Pension Fund Accounts 2016/17

The report introduced the annual accounts of the London Borough of Barking and Dagenham Pension Fund for the year ended 31 March 2017, which were included as appendix 1.
The Pension Fund Accounts set out the financial position of the Pension Fund as at 31 March 2017 and acted as the basis for understanding the financial well-being of the Pension Fund. It also enabled Members to manage and monitor the Scheme effectively and be able to take decisions understanding the financial implication of those decisions.

Overall 2016/17 was an exceptional year for the Fund with a positive investment return, net of fund manager fees and custodian costs, of 18.0%, 1% higher than its benchmark of 17.0%.

The Panel noted the draft Pension Fund accounts for 2016/17.

8. **Private business**

9. **Strategy Review**

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, effective from 1 November 2016, replaced the requirement for the Fund to have a Statement of Investment Principles (SIP) with an Investment Strategy Statement (ISS), by 1 April 2017. The ISS was approved by Members in March 2017.

Every three years the Fund completes a full valuation of its liabilities (triennial valuation), which is completed by the Fund’s actuary. Following the triennial valuation, an investment strategy review is usually completed to ensure that it still reflects the Fund’s cashflow and return requirements.

On 13 March 2017, Members received training on how to set an investment strategy and Aon Hewitt (Aon) presented a summary of their Asset Liability Study.

This report sought to review the current strategy and then proposed several amendments for Members to consider and agree. This included comments from Aon Hewitt and the Independent Adviser.

It was noted that the current objective was for the Fund to be fully-funded and it had a reasonably diverse spread of funds. It was performing well and was on track to be fully funded in due course. Aon Hewitt highlighted key points in utilising the London CIV and rebalancing the portfolio.

The Panel agreed and welcomed the report and would receive an update at its meeting in September 2017.

The Panel noted:

(i) Aon Hewitt’s Investment Strategy Review (appendix 1);
(ii) The Independent Advisors observations of the review (appendix 2); and
(iii) The officer strategy review and economic forecast in section 2 and 3 of this report.

The Panel agreed:
(iv) the revised destination portfolio and amendments to the trigger points for the derisking strategy outlined in section 4;
(v) to include fund manager risk and individual asset risk as part of the derisking strategy;
(vi) that Aon Hewitt write a paper for the September Panel to clarify the relationship between the Council and the Fund. The report will include how the Fund can invest within the Borough and the process the Fund would need to go through to buy assets from the Council.
(vii) to review Fund’s equity allocation, with a report to be taken to the September Panel, covering:
   • Equity Strategy Review;
   • Equity Manager Review;
   • Review of the options and opportunities available through the CIV;
   • Options available through investing passively; and
   • taking into consideration the destination portfolio.
(viii) to receive training on Index Linked Gilts;
(ix) to amend the UBS bond mandate to allow investment into Index-Linked Gilts.
(x) delegate authority to Officers to liaise with UBS on the mechanism of implementing a rebalancing strategy for the Fund’s passive equity and bond allocation and to advise Members of the options at the September Panel;
(xi) to amend the Fund’s strategic allocation as follows:
   1. Increase the Equity strategic allocation from 45% to 48%;
   2. Increase the DGF allocation from 17% to 18%;
   3. Reduce the Senior Loan strategic allocation from 1% to 0%;
   4. Reduce the Passive Bond strategic allocation from 5% to 4%;
   5. Reduce the Alternatives Strategic allocation from 7% to 6%; and
   6. Reduce Infrastructure from 10% to 9%.
(xii) that £30m of the cash held within the Fund is invested immediately as follows:
   1. £10m to Newton; and
   2. £20m to Pyrford.
(xiii) to amend the Investment Strategy Statement to reflect these strategy changes.
*Item considered following the passing of a resolution to exclude the public and press by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.*