

MINUTES OF PENSIONS COMMITTEE

Wednesday, 16 December 2020
(6:00 - 7:24 pm)

Members Present: Cllr Kashif Haroon (Chair), Cllr Foyzur Rahman (Deputy Chair), Cllr Rocky Gill, Cllr Amardeep Singh Jamu, Cllr Mick McCarthy and Cllr Tony Ramsay

Observers Present: Steve Davis and Susan Parkin

Advisors Present: John Raisin and Nicholas Jellema

Apologies: Stephen Jasinski

16. Declaration of Members' Interests

There were no declarations of interest.

17. Minutes (16 September 2020)

The minutes of the meeting held on 16 December 2020 were confirmed as correct.

18. Pension Fund Quarterly Monitoring - July-Sep 2020

The report introduced by the Pension Fund Accountant provided information for employers, members of London Borough of Barking and Dagenham Pension Fund and other interested parties on how the Fund had performed during the quarter ("Q3") 1 July to 30 September 2020 including an update on the markets from the Committee's independent Advisor, as well as a verbal update on the unaudited performance of the Fund for the period 1 October to 15 December 2020.

The report summarised the effects of the global market including the effects on the pandemic during the period and detailed the overall performance in Q3 of the Pension Fund both collectively and as individual Fund Managers'. The Fund's externally managed assets were valued at £1,163.27m, an increase of £31.24m from its value of £1,132.03m as at 30 June 2020. The cash value held by the Council at 30 September 2020 was £0.44m, giving a total Fund value of £1,163.71m. This total included a prepayment of £30m from the Council. Therefore, the net asset value as at 30 September 2020 after adjustment for the prepayment and short term loan from the Council was £1,121.60m.

The report also updated the Committee on the Fund's Investment Strategy and Performance.

A question was raised about the Fund's environmental, social and corporate governance arrangements, and in that respect whether the types of investments reflect the Council's philosophy, and if not, then where appropriate the Council should be actively pursuing a policy of divestment.

The Investment Fund Manager (IFM) responded that rather than disinvestment the current approach was one of more engagement. The IA added that as day to day investment activities are delegated to Fund Managers, amounting to a system of 'pooled' investments, it is hard to control. Consequently, it was his view, and an approach adopted by most LGPS funds, to seek to engage with companies to change their behaviours.

Whilst recognising the point made by the IA it was felt that there were still things that could be done to influence matters including directing asset managers as to what areas to invest in. The IFM offered to send to Members a list of current companies which the Fund is investing with. He added that whilst the focus was to maximise the Fund's value, equally there needs to be a clear structure to support the direction of the proposed Investment Strategy that Hymans Robertson are developing, which is tied to the outcomes of the recent member survey, where ESG and other ethical investments have featured strongly.

The Committee 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 to the report,
- (iii) the quarterly performance of pension funds collectively and the performance of the fund managers individually,
- (iv) the update on the transition to the Multi-asset Credit Strategy, and
- (v) the Independent Advisor's market background report to Q3.

19. Pension Fund Annual Report 2019/20

The Pension Fund Accountant presented the Annual Report for the year ended 31 March 2020 which included the 2019/20 Audited Pension Fund Accounts, which are subject to external audit (BDO).

The Annual Report was available on the Council's website at:

<https://www.lbbdpensionfund.org/barking-and-dagenham-pension-fund/about-us/forms-and-publications/>

20. Administration and Governance Report

The Pension Fund Accountant updated the Committee on the latest administrative and governance issues relating to the Pension Fund, which covered the following areas:

- The Independent Advisor's LGPS update covering the following specific issues:
 1. The restriction of public sector exit payments known as the 'Exit Cap'
 2. Latest developments relating to the Good Governance in the LGPS project, and
 3. Details of amendments to the LGPS Regulations resulting from the

Government consultation 'Changes to the Local Valuation Cycle and the Management of Employer Risk'

- That the Fund is cash flow negative;
- The Fund's three-year budget for the period 1 April 2020 to 31 March 2023, and
- The London CIV Update

21. Business Plan Update 2020

The purpose of the report was to update the Committee on the progress of the Pension Fund's 2020/21 business plan. Appendix 1 provided a summary of the Business Plan actions from 1 January 2020 to 30 September 2020. A Strategic Asset Allocation Review was continuing to be carried out by the Fund's Actuary and a full business plan for 2020/21 was being drafted alongside this, setting out the key tasks for the Committee in respect to the Pension Fund issues for 2020/21 onwards (see minute 22 for details)

The Committee noted the report and Business Plan.

22. Business Plan 2021

The Investment Fund Manager introduced the report on the Pension Fund Business Plan 2021 to 2023, which set out the key tasks for the Pension Committee for the said period, reflecting the Committee's commitment to ensure the future Investment Strategy and monitor procedures ensure that the Fund meets its objectives and complies with best practice.

Reference was made to the questionnaire that was sent to all Members to help to identify additional training needs. In the light of the responses, it was agreed that a series of future training sessions would be held monthly on specific dates to be confirmed, to deliver an overall training plan structured around the development needs of Committee Members and observers.

The Committee **resolved** to agree the Business Plan for 2021- 2023 as set out in the report

23. Private Business

The Committee **agreed** to exclude the public and press for the remainder of the meeting by reason of the nature of the business to be discussed which included information exempt from publication by virtue of paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended).

24. Investment Strategy Review - Hymans Robertson (Investment Advisors)

At the last meeting Hymans Robertson presented their findings and conclusions as to the review of the Fund's current Investment Strategy. The review considered the scope to improve the chances of achieving the Fund's

primary objective and the risk return profile of the Fund's investments, optimising diversification benefits where possible, whilst being mindful of contribution rate affordability and income requirements.

Having regard to the Member responses to a previously circulated investment beliefs questionnaire a series of recommendations were presented and agreed on changes to the asset allocation and mandate structure for the Fund's future investment arrangements. It was agreed that a further report and a presentation from Hymans Robertson would come before this meeting outlining how the changes would be implemented.

The Investment Fund Manager (IFM) introduced the item and by way of context provided the Committee with the background to the Fund's performance including summary details of the full restructure that took place in 2012 to address previous years of underperformance. The main driver for change at that time being to provide the Fund with more protection from underperforming managers, through diversification and passive investment, whilst seeking to ensure a return sufficient to close the funding gap.

Overall, the restructure and revised investment strategy performed well although there remained areas of under-performance and which led to the current high-level strategy and structure review by Hymans Robertson.

Looking at the performance of the Fund over the past year up until April 2020 there have been no real issues of concern, however since that time Equities investments have had a strong rally with the relevant Fund Manager significantly outperforming, to the extent that the Equity position within the Fund is now 'overweight', meaning it is exceeding the current strategic allocation of 48% and the boundaries within that allocation, and therefore requires an urgent review.

Given the need to provide the Committee with more training ahead of consideration of further strategic asset allocations within the Fund, the IFM would ideally wish to avoid the need to have to make decisions on selling assets now only to potentially have to buy back later and incur fees. Instead, he would recommend amending the strategy control range to accommodate the large movement in Equities in the Fund until such time as Hymans Robertson complete their review and present a further report to the Committee in June, with recommendations for changes.

The Committee then received a presentation from Nick Jellema, Senior Investment Consultant at Hymans Robertson on an update on the Investment Strategy and Structure Review. He commented that the Fund was in a strong position although there were small strategic refinements that could be made to help and support the underpinning of the returns. The executive summary and recommended courses of action covered two areas, namely Strategy, and Structure and Implementation, the latter proposing both courses of immediate as well as mid-term actions. The presentation also covered the analysis and testing of the proposed v current Investment Strategy using Hymans Robertson strategic framework model to produce predicted rates of return and recommended next steps.

In response to the presentation a question arose about Multi-Asset Credit (MAC) and concerns that this amounted to the type of sub-prime investment that led to the collapse of the banks in 2008. Members were assured that there was very little overlap in the MAC's of the types of property investment which caused the financial crash over a decade ago. There was however support for

the proposal to focus property investment more in the residential than commercial market given the volatility of the latter at this present time.

In the light of the presentation and having regard to the recommendations in the covering report from the IFM,

The Committee **noted**:

- (i) The Investment Strategy and Structure Review proposals put forward by Hymans Robertson, and
- (ii) The performance of the Fund since 2015 and up to 7 December 2020.

Furthermore, the Committee **agreed to**:

- (iii) The proposed revised asset allocation and the strategy control ranges provided in table 5 in section 3.6 of the report,
- (iv) Invest a further £20m in Private Equity with Aberdeen Standard, to be funded from the pre-payment of £20m that will be paid to the Fund on 1 April 2021, with the initial investment of £10m to be made in January 2021 and a further £10m invested in April 2021,
- (v) Remove the current investment management agreement restriction with Aberdeen Standard that requires less than 50% of the Portfolio to be invested in permitted investment funds which offer redemptions within 365 days (including notice period) to accommodate the increase in Private Equity,
- (vi) The proposed approach, outlined in the report, of Members receiving training on both the proposed asset class to be invested in but also the impact of reducing the asset allocation to current investments, prior to any investment decision being made, and in doing so,
- (vii) Attend training on the proposed strategic asset allocation changes on the following dates (to be confirmed):
 - January 2021: ESG and Value equity investments
 - February 2021: Private debt and Diversified Growth Funds
 - March 2021: Multi-asset Credit and Fixed Income (LCIV)
 - April 2021: Property Investments, and
- (viii) Receive further reports to agree any asset allocation decisions after each training session.