

# MINUTES OF PENSIONS PANEL

Wednesday, 14 September 2016  
(6:00 - 7:28 pm)

**Members Present:** Cllr Faraaz Shaukat (Deputy Chair in the Chair), Cllr Sade Bright, Cllr Edna Fergus, Cllr James Ogungbose, Cllr Jeff Wade and Cllr John White

**Observers Present:** Bernie Hanreck

**Advisors Present:** Colin Cartwright, John Raisin and Gayathri Varatharajan

**Apologies:** Cllr Dominic Twomey

## 10. Declaration of Members' Interests

There were no declarations of interest.

## 11. Minutes ( 8 June 2016)

The minutes of the meeting held on 8 June 2016 were confirmed as correct.

## 12. Pension Fund Quarterly Monitoring- 1 April to 30 June 2016

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 has performed during the quarter 1 April 2016 to 30 June 2016 (“Q2”). The report updated the Panel on the Fund’s investment strategy and its investment performance. Due to the technical nature of this report, Appendix 2 provides a definition of terms used in this report and Appendix 3 sets out roles and responsibilities of the parties referred to throughout this report.

The UK’s decision in the referendum to leave the EU was the main event in the second quarter. This shocked investment markets with initial reactions in markets pronounced: Sterling fell, safe haven assets (Government bonds) rallied and equities were lower. Equity markets generally staged a recovery in the final days of the quarter, supported by expectations that interest rates would stay lower for longer, the Bank of England could cut rates and the next political steps around the Referendum lack clarity.

The Group Manager, Pensions and Treasury (GMPT) summarised the performance of the Fund and its managers for the quarter, over one and over two years. The GMPT also highlighted individual Fund Manager performance and noted that two managers, Kempen and Schroders, had significantly underperformed their benchmarks.

A verbal update on the unaudited performance of the Fund for the period 1 July to 13 September 2016 was also provided to the Panel.

The GMPT advised Members that the performance of one of the Fund's underperforming managers, Kempen, had improved since the end of the quarter.

The GMPT and the Strategic Director, Finance and Investments (SDFI) advised Members that Schroder's poor quarterly performance was based on the markets view of UK property following the referendum results. This poor performance did not reflect a change in the property Net Asset Value (NAV) but were a reflection of an 8.5% discount implemented by Schrodgers to stabilise the Fund. The discount is reflected in the bid price, which is the price that is reported in their performance report. When investing in property, it is more usual to pay a premium above the NAV. As there was an 8.5% discount on the NAV this reflected an opportunity to increase the Fund's investment in property at an attractive entry point. Due to the significant discount being offered and due to its underweight position the Chair and the SDFI, in consultation with the Fund's investment advisors, agreed to invest £5m with Schrodgers to rectify the underweight position.

Colin Cartwright (Aon Hewitt) provided his views on the current market situation. He stated that the referendum result in June 2016 had been a shock to the markets and there was a degree of volatility around the UK and global economy although there had been some rallying in equity markets to pre-referendum levels. At this stage it was too early to know the long term effect of the referendum on the markets in light of the shape that Brexit would take however he considered that the Pension Fund benefitted from its diverse investment strategy and there were opportunities to invest in areas such as property.

The Independent Adviser stated that it was difficult to 'second guess' the markets although the diverse strategy was the sensible option.

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;
- (iii) The quarterly performance of pension funds collectively and the performance of the fund managers individually;
- (iv) That the Fund held an underweight position in property of 6.5% against a strategic allocation of 7%;
- (v) That due to a significant discount being offered and due to its underweight position the Chair and the Strategic Director, Finance and Investment, in consultation with the Fund's investment advisors, agreed to invest £5m with SIRE to rectify the underweight position; and

The Panel agreed:

To delegate authority to the Strategic Director, Finance and Investment, in consultation with the Chair and the Fund's investment advisors, to implement a

hedge where appropriate within the Fund's global equity mandates. (See minute 13).

### **13. Presentation by Aon Hewitt**

The Panel received a presentation from Colin Cartwright (Aon Hewitt). He covered the following areas in his presentation:

- Overview
- The strategic rationale to currency hedge
- Aon Hewitt's view on sterling
- Recommendation and next steps

He stated that sterling had seen considerable falls (13%) relative to the key currencies since the referendum on 23 June 2016 when the UK decided to leave the European Union. This had presented an opportunity for investors including pension schemes to hedge the currency of any non-GBP denominated investments, to benefit from the current low foreign exchange rate levels.

The Independent Adviser supported the proposed Currency hedging and felt that the diverse investment strategy was the right approach and the Panel sought clarification on the detail involved. This would be an investment decision which could be flexible and be amended.

Aon Hewitt recommended that the Pensions Panel considered hedging some of its currency exposure in its equity holdings. This could be implemented via the custodian (or third party) or preferably by shifting equities from an unhedged to hedged share class. UBS have a hedged share class through which the hedge could be implemented.

Aon Hewitt suggested a number of currency hedge triggers are based on USD/GBP exchange rate:

- i. 25% of the equity portfolio be implemented with immediate effect (currently around \$1.33);
- ii. Increase to 50% of the equity portfolio to be implemented when USD reaches \$1.25 per GBP; and
- iii. Increase to 70% of the equity portfolio to be implemented when USD reaches \$1.20 per GBP

Aon Hewitt proposed this be implemented by way of moving assets from the UBS equity unhedged share class to hedged share class.

A 25% hedge of equities would require approximately 75% of the Fund's UBS holdings to be transferred into the hedged share class.

The GMPT advised Members that the Fund currently held a 40% exposure to currency risk through the three unhedged equity strategies and that two of the equity funds are actively managed. The actively managed strategies could adjust their strategy to reflect currency changes and the GMPT recommended that, at current levels, a hedge was not put on the actively managed strategy.

The GMPT recommended that the currency hedge triggers suggested by Aon Hewitt were adopted but that the hedge were placed on the passive strategy as outlined below:

- i. 50% of the passive equity portfolio managed by UBS to be implemented when USD reaches \$1.30 per GBP;
- ii. 75% of the passive equity portfolio managed by UBS to be implemented when USD reaches \$1.25 per GBP; and
- iii. 100% of the passive equity portfolio managed by UBS to be implemented when USD reaches \$1.20 per GBP.

#### **14. Administration and Governance Report**

It is best practice for the Panel to receive regular administration data and governance updates. Administration data included cash flow, member numbers, governance and consultations. The SDF&I presented the Administration and Governance report, covering four main areas, including:

- i. Council contribution prepayment 2016/17;
- ii. LGPS Reforms;
- iii. Pension Fund Budget 1 April 2016 to 31 March 2019; and
- iv. Cash flow to 31 July 2016.

The Panel noted:

- i. That the Fund is cash flow positive;
- ii. The update on progress in setting up the CIV; and
- iii. The Fund's 2015/16 actual cash flow compared to the budgeted cash flow.

#### **15. Business Plan Update 2016**

The report updated the Pension Panel on progress regarding the Pension Fund's 2016 business plan. This included that there would be the Pension Fund Stakeholder meeting on 17 November 2016 in the Council Chamber, Barking Town Hall.

The Panel noted the progress on the delivery of the 2016 Business Plan at Appendix 1 to the report.

#### **16. Pension Fund Annual Report 2015/16**

This report presented the Pension Panel with the Annual Report for the year ended 31 March 2016 and included the 2015/16 Audited Pension Fund Accounts.

The Local Government Pension Scheme (Administration) Regulations 2008 (No. 239) required each administering authority to prepare an annual report for the pension fund. The regulations prescribe that the following should be

included in the annual report:

- a report on the management and financial performance of the fund during the year;
- an explanation of the investment policy;
- a report on the administrative arrangements for the fund;
- a statement from the actuary on the latest funding level;
- the current version of the governance compliance statement;
- the fund account and net asset statement with supporting notes and disclosures;
- the extent to which the fund has achieved its required performance levels; and
- the current version of the funding strategy statement, the statement of investment principles and communications policy and any other information the authority considers appropriate.

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

<http://www.lbbdpensionfund.org/about-us/forms-and-publications.aspx>

The Panel noted the Pension Fund Annual Report for 2015/16.

#### **17. Application for Admitted Body Status - Cleantec Services Limited**

The Panel were requested to consider the application for Admitted Body status from Cleantec Services Limited (CSL) to the Local Government Scheme (LGPS).

The Panel agreed:

The application for Admitted Body Status by Cleantec Services Limited, as a 'closed' agreement, subject to the requirements outlined in the report are put in place to the satisfaction of the SDFI.