

# MINUTES OF PENSIONS PANEL

Wednesday, 13 December 2017  
(6:05 - 7:35 pm)

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

**Observers Present:** John Garnham and Susan Parkin

**Advisors Present:** John Raisin and Colin Cartwright

**Apologies:** Cllr Dominic Twomey

## **22. Declaration of Members' Interests**

There were no declarations of interest.

## **23. Minutes - To confirm as correct the minutes of the meeting held on 18 September 2017**

The minutes of the meeting held on 18 September 2017 were confirmed as correct.

## **24. Pension Fund Quarterly Monitoring: July-September 2017**

The 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 July 2017 to 30 September 2017 ("Q3"). The report updated the Panel on the Fund's investment strategy and its investment performance. Due to the technical nature of the report, Appendix 2 provided a definition of terms used in this report and Appendix 3 sets out roles and responsibilities of the parties referred to throughout this report.

A verbal update on the unaudited performance of the Fund for the period 1 October to 11 December 2017 was provided to the Panel.

It was noted that Pyrford, Newton and BlackRock had underperformed and both Pyrford and BlackRock would be reviewed, with the possibility of them being invited to Pensions Panel in the near future. Hermes had recently sold two assets for significantly below the value reported to Members as part of the quarterly valuation and their valuation methodology is being monitored by officers.

It was noted that a number of fund managers had been outperforming their benchmarks. The GMPT stated that equities can be reviewed in order to remove the risk and the equity allocation would be reduced to 50%.

The GMPT also advised that from 1 April 2018, the Council would be making a prepayment of £40m into the Pension Fund and at the Panel meeting in March 2018 a report would be submitted and there would also be a report reviewing

where the funds were to be invested.

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.

The Panel agreed:

- (i) The re-advancement waiver provided by Hermes, which will allow any distributed profits from the sale of GS Global Infrastructure Partners I, LP and Pan-European Infrastructure Fund LP to be reinvested in future Value-Added investments. This will increase the Fund's commitment to Hermes from £75m to £80.3m.

## **25. Presentation by Newton**

Suzanne Hutchins and James Mitchell from Newton provided a detailed presentation to the Panel. This sought to address concerns about their lower investment returns. Suzanne Hutchins stated that their investment team were developing a global strategy and there was a lot of talent in the team which had undergone some personnel changes. She stated that they were seeking to protect the upside and downside of investment returns.

She advised that there was and would be no change in Newton's investment strategy or its underlying philosophy. Their approach was transparency with the aim to generate return and capital growth.

Newton's returns were undertaken in three ways:

- Adding values by picking individual sectors and companies
- A very dynamic strategy to maximise opportunities for growth
- An emphasis on capital preservation

The presentation noted that real returns had not yet been achieved by the investment team however Newton's view was that financial prices were currently elevated, and they were seeking to preserve capital over a short-term period.

Newton's objective was to generate growth in line with LIBOR plus 4% over a three-year period and they felt that this could be delivered. Newton had held a cautious view of investments for more than 3 years. They had steadily become more cautious as the risks has increased and they were risk averse.

Suzanne Hutchins went on to state that the economy was currently experiencing nominal growth and low inflation. In addition, corporate profits were in decline. Newton had taken out derivative protection in that when markets fell, the equity

protection went up.

It was noted that Newton had reported itself to the FCA.

## **26. Administration and Governance report**

It is best practice for Members to receive regular administration data and governance updates. Administration data includes cash flow, member numbers, governance and consultations. The report covered three main areas including:

- i. Pension Fund Budget 1 April 2017 to 31 March 2020;
- ii. Cash flow to 31 September 2017;
- iii. The London Collective Investment Vehicle (LCIV)
- iv. Update on MiFID 2;
- v. Actuary Contract Tender; and
- vi. Annual Pension Fund Stakeholder Forum.

It was noted that the Council's Traded and Home Services would be transferring into the Local Government Pension Scheme (LGPS (with a closed scheme in the future. This would have an impact on the cash flow of the fund and a forecast of the changes in 2018/19 would be submitted to the Panel at its meeting in March 2019. This report would also include a strategy to get income back from assets.

The GMPT highlighted that administration costs were forecast to be £100K higher than budget as an external company will complete the Fund's Guaranteed Minimum Pension reconciliation and that a new Chief Executive had been appointed as interim CEO for the London Collective Investment Vehicle (LCIV). Overall the Fund is expected to remain cash positive for the duration of the three years.

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 interview dates for the actuarial tender will now be in February 2018. If any Member would like to be on the selection panel, please can they advise the Group Manager for Treasury and Pensions; and
- iv. That the Fund has now opted up to Professional Investor status will all advisors, Money Market Funds, the Custodian and all of the Fund's investment managers.

## **27. Business Plan Update 2017**

The purpose of this report was to update the Pension 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 30 November 2017 and the actions for the remainder of the year.

It was noted that a new business plan for 2018/19 would be considered by the Panel at its meeting on 14 March 2018.

The Panel noted the report.

**28. Private business**

**29. \*LCIV Equity Managers Review**

Over the past number of years, the government has made it clear that it wants 6-7 pools across LGPS investments to deliver asset pools that can achieve the benefits of scale, but with strong governance structures in place. Pools are focused on reducing the costs of investing LGPS assets and deliver value for money.

To manage the Fund's pooling, the Fund has joined with other London LGPSs to form the London Collective Investment Vehicle (LCIV), in which the Fund is a voting shareholder. So far, the Fund has transferred three of its managers across to the LCIV, including Newton, Pyrford and Baillie Gifford.

At the September 2017 Pension Panel, Members agreed that officers should arrange a meeting for Members to meet the manager on the LCIV.

The Panel noted:

- (iv) A meeting was held on 24 November 2017 where four equity managers currently on the London Collective Investment Vehicles (LCIV) presented to a sub-group of Members, officer and advisors.

The Panel agreed the sub group's recommendation:

- (v) That all four equity managers are suitable for the Fund to invest in should there be a need to change any of the Fund's active equity managers;
- (vi) That currently the Fund's two equity managers, Kempen and Baillie Gifford, are performing well and provide a good balance of growth and value, with little duplication of investments and that there is no immediate need to invest in any of the LCIV equity managers;
- (vii) That a training session for Members be held in early 2018 to cover the various passive investment strategies, including fundamental index;
- (viii) To include a review of the Fund's exposure to Emerging Markets as part of the strategy review scheduled for 2018.
- (ix) That a further review of the LCIV equity managers is completed when:
  - i. additional managers have been appointed by LCIV;
  - ii. if there are issues with the Fund's current equity managers; or
  - iii. if a further equity manager is required as part of the Fund's derisking strategy.

(x) That officers approach Kempen to discuss a reduction in fees to reflect the lower fees available from the London CIV managers

*\*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.*