

**PENSION POLICY & INVESTMENT
COMMITTEE**

Monday, 10 December 2018 at 10.00 am
Room 2, Civic Centre, Silver Street, Enfield,
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PENSION POLICY & INVESTMENT COMMITTEE

**Monday, 10th December, 2018 at 10.00 am in the Room 2, Civic
Centre, Silver Street, Enfield, EN1 3XA**

Membership:

Councillor: Mahmut Aksanoglu, Ergun Eren, Derek Levy, Terence Neville OBE JP,
Claire Stewart and Doug Taylor (Chair)

AGENDA – PART 1

- 1. WELCOME & APOLOGIES**
- 2. DECLARATION OF INTERESTS**
- 3. STANDING ITEMS (Pages 1 - 4)**
 - A. Business Plan 2018/19 Update
 - B. Risk Register
 - C. Pension Fund Governance
 - D. Corporate Governance
- 4. MINUTES OF PREVIOUS MEETINGS: 29TH OCTOBER (Pages 5 - 10)**
- 5. LCIV - INFRASTRUCTURE PRESENTATION**
- 6. ASSET ALLOCATION TO INFRASTRUCTURE**

Please see Part 2 Report
- 7. ABSOLUTE BOND REVIEW**

Please see Part 2 Report

8. PRIVATE EQUITY SUBSCRIPTION

Please see Part 2 Report

9. QUARTERLY PERFORMANCE REPORT

Please see Part 2 Report

10. AOB

11. DATE OF THE NEXT MEETING

Thursday 28th February 2019

ITEM**London Borough of Enfield**

REPORT TO;	Pension Policy & Investment Committee
SUBJECT:	Quarterly Investment Report 2018
LEAD OFFICER	Paul Reddaway

1. RECOMMENDATIONS

To note the Aon quarterly Investment report ended 30th June 2018.

2. EXECUTIVE SUMMARY

The Fund value has grown by 3.45% over the quarter ended 30th June. The majority of the gains has been through global equities. The individual managers performance is also highlighted.

3. Key performance Highlights

Our investment consultants Aon Investment Report is set out in Appendix 1.

The Enfield Fund increased in value by £38m (3.45%) over the quarter ended 30th June 2018. The value of the fund stands at £1,138.7m. This was mostly driven by global equities and UK property gains in the quarter. The Funding level has now been assessed to be at 95%.

The Aon report sets out the performance for each manager. The report highlights some of the key issues that the arise from it.

Global Equities

In general, global equities have performed well in the quarter, but it should be noted that **MFS** have continued to underperform for the quarter and are now -5.1% behind the benchmark for the year.

Alternatives

The distressed debt and event driven strategies (**York & Davidson Kempner**) have benefited from currency gains from being held in dollars, otherwise their performance is flat for the quarter.

Lansdowne continues to underperform over the year, but their long-term performance is strong. This type of volatility is expected with this type of investment.

Bonds

Bonds in general have struggled because credit spreads widened in the UK resulting in underperforming gilts. This had an impact on **Western Asset Management**.

Insight losses over the quarter continue to be post negative returns and their longer-term performance is also disappointing. As this is an absolute return mandate, there is need to consider whether this strategy is still appropriate. This will be considered in a separate agenda item.

Description	Actions in Place	Progress- comment	Risk category/ rating/DOT	Lead officers/ Councillors
PEN 01 - Fund assets fail to deliver returns in line with the anticipated return underpinning valuation of liabilities over the long-term	<ol style="list-style-type: none"> 1. Anticipate long-term return on a relatively prudent basis to reduce risk of failing to meet return expectations. 2. Analyse progress at three yearly valuations for all employers. 3. Undertake Inter-valuation monitoring. 	With the assistance of the Aon the position is kept under regular review and Pension Committee informed of the impact of prevailing market conditions on the funding level.	Strategic risk Likelihood = Medium Impact = Large Rating = D2 (Static)	Paul Reddaway
PEN 02 - Inappropriate long-term investment strategy	<ol style="list-style-type: none"> 1. Set Pension Fund specific strategic asset allocation benchmark after taking advice from investment advisers, balancing risk and reward, based on historical data. 2. Keep risk and expected reward from strategic asset allocation under review. 3. Review asset allocation formally on an annual basis. 4. Investment strategy group actively monitors this risk 	<p>The PP&IC supported by our Advisors monitor the investment strategy and to develop proposals for change / adjustment for Pension Committee consideration.</p> <p>Officers will also closely monitor manager performance between the quarterly reviews</p> <p>The impact of each decision is carefully tracked against the Investment Strategy Statement for the Fund to ensure that long-term returns are being achieved and are kept in line with liabilities.</p>	Strategic risk Likelihood = Low Impact = Large Rating = E2 (Static)	Paul Reddaway
PEN 03 - Active investment manager under-performance relative to benchmark	<ol style="list-style-type: none"> 1. The structure includes active and passive mandates and several managers are employed to diversify the risk of underperformance by any single manager. 2. Short term investment monitoring provides alerts on significant changes to key personnel or changes of process at the manager. 3. Regular monitoring measures performance in absolute terms and relative to the manager's index benchmark, supplemented with an analysis of absolute returns against those underpinning the valuation. 4. Investment managers would be changed 	<p>The Fund is widely diversified, limiting the impact of any single manager on the Fund. Active monitoring of each manager is undertaken with Advisors and Officers meeting managers where there are performance issues and communicating regularly.</p> <p>Comments on whether mandates should be maintained or reviewed are included and where needed specific performance issues will be discussed and reviewed</p>	Strategic risk Likelihood = Low Impact = Small Rating = E4 (Static)	Paul Reddaway

	following persistent or severe underperformance			
PEN 04 - Pay and price inflation significantly more than anticipated	<p>1. The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. The actuarial basis examines disparity between the inflation linking which applies to benefits, the escalation of pensionable payroll costs, which only applies to active members, and on which employer and employee contributions are based.</p> <p>2. Inter-valuation monitoring gives early warning and investment in index-linked bonds also helps to mitigate this risk.</p> <p>3. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>	<p>The impact of pay and price inflation is monitored as part of the Council's MTFF processes and any potential impact on pension fund contributions is kept under review and factored into the Council's overall position.</p> <p>However, there is an increasing likelihood of rising inflation impacting on the overall liabilities of the Fund however the risk rating takes this into account.</p>	<p>Strategic risk Likelihood = Low Impact = Medium Rating = E3 (Static)</p>	Paul Reddaway/Julie Barker
PEN 05 - Pensioners living longer.	<p>1. Mortality assumptions are set with some allowance for future changes in life expectancy. Sensitivity analysis in triennial valuation helps employers understand the impact of changes in life expectancy.</p>	<p>Mortality monitoring is undertaken by the Fund's actuary</p>	<p>Strategic risk Likelihood = Low Impact = Small Rating = E4 (Static)</p>	Paul Reddaway/Julie Barker
PEN 06 -Pensions Administration poor quality information supplied to both members and the Fund Actuary			<p>Strategic risk Likelihood = Low Impact = Large Rating = E2 (Static)</p>	Julie Barker
PEN 07- Failure to receive employers contributions	<p>Receipt of contributions from employers are monitored monthly – for timelessness and accuracy. Escalation Procedure in place for late payments</p>	<p>All breaches are reported in the Fund's Annual report. There have been no major breaches for six years.</p>	<p>Strategic risk Likelihood = Low Impact = Small Rating = E4 (Static)</p>	Paul Reddaway

MINUTES OF THE MEETING OF THE PENSION POLICY & INVESTMENT COMMITTEE HELD ON MONDAY, 29TH OCTOBER, 2018

MEMBERS: Councillor Mahmut Aksanoglu, Derek Levy, Terence Neville OBE JP, Ergun Eren and Doug Taylor (Chair)

Officers:

Matt Bowmer (Interim Director of Finance), Paul Reddaway (Head of Finance Pension Investments) and Tariq Soomauroo (Governance & Scrutiny)

Also Attending: Daniel Carpenter (Aon) and Rohan Meswani (Aon)

81. WELCOME & INTRODUCTIONS

The Chair welcomed all attendees to the meeting.

82. APOLOGIES

Apologies for absence were received from Councillor Claire Stewart and Carolan Dobson (Independent Advisor).

Apologies for lateness received from Councillor Derek Levy.

83. DECLARATION OF INTERESTS

There were no declarations of interest in respect of any item listed on the agenda.

84. STANDING ITEMS

Paul Reddaway (Head of Finance Pension Investments) updated the board on the standing items.

- A. Business Plan 2018/19 - No changes
- B. Enfield Pension Fund Risk Management Policy – Following a governance review a Pension Fund Risk Policy has now been prepared to accompany the Fund's Risk register.

Councillor Doug Taylor (Chair) advised that he would like the Local Pension Board Committee papers added to future agendas as a standing item.

85. MINUTES OF PREVIOUS MEETINGS: 1ST AUGUST 2018

Noted:

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Councillor Terry Neville advised that the minutes should reflect that Members were not convinced at the last meeting due to the absence of a potfolio manager.

Agreed:

The minutes of the meeting held on 01 August 2018 were agreed as a correct record.

86. CQS PRESENTATION - MULTI ASSET CREDIT

Councillor Doug Taylor (Chair) and Paul Reddaway (Head of Finance Pensions Investments) introduced the report following the points of clarification requested by Members from the previous meeting.

Noted:

- CQS had superior long- term performance figures than JP Morgan
- Members wanted to identify how both managers could navigate the market in these uncertain times.

Received a report pack tabled by LCIV & CQS

Craig Scordellis (Head of Long-Only Multi-Asset Credit CQS) presented the item on their investment philosophy.

Noted

- Company launched on the 31st May 2018 with £343m
- Current AUM £488m (Figure 700m at the end of this quarter)
- Worst October month returns since 2008, return rate since inception is 1.43%
- Annualised Return 5.07%, Annualised Volatility LTD 2.06% and Sharpe Ration LTD 2.19%.
- No underlying markets are bought to ensure there is minimal volatility (avoiding defaults)
- There are no material drawdowns to investors when there are defaults
- US loans are currently safer than Europe (Strong US housing data and low loan default rates).
- CQS will preserve/outperform when there is a crisis
- Allocation will be to loans rather than HYC
- After December, numbers will be 5 ½ % (3.35% Cash Interest)
- Next year with Brexit and other issues, volatility will increase but this does create good investment opportunities.

The Committee thanked CQS for their presentation

AGREED

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- £50m to be invested into the Multi Asset Credit (MAC) via the LCIV.
- Formal review to take place in 6 months' time
- Paul Reddaway advised he can invest money by the end of November.

87. AON PRESENTATION ON RESPONSIBLE INVESTMENTS (TRAINING SESSION)

Lara Kennard (Aon Representative) made a presentation on the area of Responsible investments.

Noted:

What is responsible investment (RI)

The importance of them in an investment strategy

Potential actions in constructing a RI

The Committee thanked Lara for her presentation.

88. LCIV - PRESENTATION ON ESG POLICY

London CIV representatives presented their ESG Policy.

Noted:

- Responsible Investment Policy established (to be ratified at Shareholder meeting)
- LCIV has become a UN PRI signatory and member of LAPFF
- LCIV is a signatory of the UK Stewardship Code
- All LCIV Managers are required to have RI Policies (Published on LCIV client portal)

The Committee thanked LCIV for the presentation and advised that they would like an update on the proposals from the Shareholder meeting.

89. PRESENTATION RBC - SUSTAINABLE EQUITY PRODUCT/ LCIV

Received a Global Asset Management report pack from Simon Gregory (Global Equity Team product specialist) and Greta Favetta (Investment analyst).

The Committee thanked Global Asset Management for their presentation.

90. RESPONSIBLE INVESTMENT FRAMEWORK - REPORT

Paul Reddaway (Head of Finance Pensions Investments) asked the members to note the contents of this report and to consult with the wider membership of the Fund.

The Committee noted the contents of the report.

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91. ANTIN PROPOSAL FOR A NEW INFRASTRUCTURE FUND

Received a report from Paul Reddaway (Head of Finance Pensions Investments) on Antin proposal for a new Infrastructure Fund.

Noted

- Enfield have successfully committed capital towards Antin in line with the original commitment timetable (January 2017)
- Funds would be commit funds towards Antin over time to increase Fund's allocation to infrastructure.
- New fund likely to oversubscribe and a delayed decision may lead to Enfield's commitment being scaled down
- LCIV are unveiling their proposals next week.

Agreed

- The Committee will compare the relative merits of both options at the next meeting.

92. QUARTERLY PERFORMANCE REPORT - 30TH JUNE 2018

Received a report from Paul Reddaway (Head of Finance Pensions Investments) on the Aon quarterly Investment report ended 30th June 2018.

The Committee noted the individual manager performances and acknowledged the funding level assessed.

Confidential

93. ABSOLUTE RETURN BOND MANDATE

Received a report from Paul Reddaway (Head of Finance Pensions Investments) regarding Options for Absolute Return Bonds (ARB) mandate.

Noted:

- To agree in principle to dis-invest from Insight ARB 400+ product and to consider an alternative ARB manager with a less aggressive approach and lower volatility or to examine the LCIV Global Bonds Fund that targets an absolute return with high quality bonds.

Agreed:

- To consider options set out in the report at the next Pension, Policy and Investment Committee in December.

94. EXCLUSION OF THE PRESS AND PUBLIC

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RESOLVED, in accordance with Section 100(A) of the Local Government Act 1972 to exclude the press and the public from the meeting for the items listed on part two of the agenda on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 (information relating to the financial or business affairs of any particular person (including the authority holding that information) of Part 1 of Schedule 12A to the Act (as amended by the Local Government (Access to Information) (Variation) (Order 2006)).

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