MINUTES OF THE MEETING OF THE PENSION POLICY & INVESTMENT COMMITTEE HELD ON WEDNESDAY, 31 JULY 2024

COUNCILLORS

PRESENT	Doug Taylor (Chair), Sabri Ozaydin (Vice-Chair) Susan Erbil, David Skelton and Edward Smith
ABSENT	Ahmet Oykener
OFFICERS:	Ravi Lakhani (Head of Pension Investments), Terry Osborne (Director Law and Governance) and Nicola Lowther (Governance Manager)
Also Attending:	Daniel Carpenter (Associate Partner, Aon), and Carolan Dobson (Independent Advisor)

1
WELCOME AND APOLOGIES

The Chairman welcomed everyone to the meeting.

Apologies were received from Cllr Ahmet Oykener. They are currently on Local Pension Board and PPIC which is an error so will not be able to attend until this is rectified at September council.

2
DECLARATIONS OF INTEREST

No declarations were received in relation to any items on the agenda.

3
MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 20 March 2024 were **AGREED**.

4
CHAIR'S UPDATE

The Chair informed members that there will be members of the public at the meeting.

Discussions have been held with the Governance team regarding Part 2 private and confidential minutes. A clear and agreed-upon process is now in place on how these matters will be recorded.

A letter from a government minister, sent before the election, asked Pension Fund about what efficiencies they have made and what progress they have made towards pooling. Enfield Council prepared and sent a response back to the government. The Chair anticipates that the incoming government's policies may closely align with those of the previous administration. They will monitor developments as they unfold.

5

FIXED INCOME/BOND PORTFOLIO CHANGES

Ravi Lakhani, Head of Pension Investments, presented the paper and highlighted its key points. He summarised the impact of the proposed changes, specifically the 6% reduction in the bond allocation.

During the detailed review of the bond portfolio, it was agreed that the current asset mix is well diversified. Taking into consideration the following factors of; seeking to maintain a good exposure across the opportunity set (i.e., government bonds, investment grade credit, high-yield, multi-asset credit etc.), to benefit from the most attractive sub-sectors of the credit market, invest globally, across sectors, issuers and economies, to improve the risk/return profile and enhance value through active management, hold an optimal mix of managers to strike a balance between governance burden, complexity, diversification and efficient portfolio management (ongoing charges and transaction costs), the committee agreed that a 4% allocation to private debt (as part of the 24% allocated to fixed income) should be included within the asset class given the attractive risk reward opportunities for this type of fund. PPIC met a number of times in the first half of 2024 to review the Bond Portfolio. The review was led by officers for the Fund and the Fund's investment advisors Aon.

Following the review of the Fixed income/Bond asset class the proposed changes are as follows; changes for investment reasons, changes for portfolio structure reasons and changes to bring down asset class weighting in line with strategic allocation.

The remaining funds in the bond portfolio after the changes have been implemented will be namely, 7% Blackrock IL Gilts, 6.5% LCIV Global Bond Fund (PIMCO), 6.5% LCIV alternative credit fund (CQS) and 4% Private Debt.

The report was **AGREED** subject to not opting for a full redemption of the Western Fund but redeeming only the £20m temporary investment (made in 2023) at this stage. The reasons for not having the entirety of the portfolio pooled will be explained in March 2025.

6

FUNDING POSITION & RISK UPDATE, CASHFLOW FORECAST & 2025 VALUATION PLANNING

Ravi Lakhani, Head of Pension Investments, presented the paper and highlighted the key points. He summarised the risks currently faced, the cashflow forecast and 2025 valuation planning process for the London Borough of Enfield's Pension Fund.

The funding position of the London Borough of Enfield Pension Fund at 30 June 2024 is around 122%. This represents an improvement in funding level from 104% at 31 March 2022. Whilst this improved funding position is good news, there are limitations to the usefulness of the funding level metric because it is based on a single set of assumptions about the future and asset values at a single point in time. It also only recognises benefits earned to date and not the cost of future benefits.

The Fund's assets have remained relatively stable since the 2022 valuation, meaning that the Fund currently holds a similar amount of money to pay each pound of pension as they did at the 2022 valuation date. Inflation has risen sharply since the valuation date. Benefits have increased by 10.1% in 2023 and 6.7% in 2024, increasing the value of the Fund's liabilities. This has also had an impact on the Fund's cashflow profile as current benefit payments have also increased in line with the above pension increases. The key funding risks include; investment risk, inflation risk, longevity risk, climate risk and cashflow risk.

The current portfolio of assets generates an income yield of approximately 1% pa. This level of income would be sufficient to meet the cashflow requirements under the majority of the scenarios modelled. However, the impact of possible reductions in contributions and/or higher inflation in the future need to be monitored.

ACTION: To send a note round to the committee to show the income being received to the Fund (gross and net figures) as well as what is being invested.

Ravi Lakhani, Head of Pension Investments

The report and appendix were **NOTED**.

7
LONDON CIV - UPDATE

Ravi Lakhani, Head of Pension Investments, presented the paper and highlighted its key points. He summarised the fund launches such as nature-based solutions, private debt, and indirect property pooling. Enfield's investments and CIV funds were outlined in the report in particular Global Equity Focus which has a 10% share.

Monitoring officers and framework in place who report to the monitoring committee, officers of the Fund receive monthly updates on any changes with regard to the Fund.

There is a London CIV conference on 5 and 6 September in London for any members who would be interested in attending.

ACTION: Chief Executive of the London CIV to attend a PPIC meeting to provide an overall update to the committee.

Ravi Lakhani, Head of Pension Investments

The report was **NOTED**.

8
INVESTMENT UPDATE ON ENFIELD PENSION FUND INVESTMENTS & MANAGERS

Ravi Lakhani, Head of Pension Investments introduced the report highlighting the key points.

The committee has recently made a number of commitments to infrastructure mangers as follows: LCIV Renewable Infrastructure Fund - £75m, Copenhagen Infrastructure Partners -£50m, - Blackrock Global Infrastructure Fund - £41m. These commitments are expected to be called in stages over the next 2-4 years.

The property asset class produced a negative return of -1% over the quarter. On a 1-year basis the asset class for the Fund has shown -2.2% performance which is 1.6% below the benchmark. Over 5 years the return has been 1.05% p.a. in line with benchmark. The Fund is overweight in bonds/fixed income. This will be reduced following the Bonds deep dive as and when cash is required for other investments.

The cash balance is currently invested in short term Money Market funds in line with the treasury management strategy. These funds offer an overnight rate of rate return, offer instant liquidity, are heavily diversified and are only invested with the highest quality credit rated instruments. At the end of the quarter, they were yielding approximately 4-5%.

The report, appendices and confidential appendices were **NOTED**.

9
INVESTMENT MANAGER FEES

Ravi Lakhani, Head of Pension Investments introduced the report highlighting the key points.

The Fund is administered by the London Borough of Enfield (the administering authority), which is responsible for setting the investment strategy, appointing the investment managers, and monitoring the performance and risks of the Fund.

It is good practice for the PPIC to be updated on investment management expenses to ensure effective governance and oversight of pension fund investments. It is crucial for the PPIC to have a clear understanding of all costs associated with managing the fund's investments, including management fees, transaction costs, and performance fees. This transparency enables PPIC to provide effective governance about the fund's investment strategy and to assess the value for money of the investment management services provided. PPIC also requested in late 2023 information on what fees were paid to investment managers.

Small savings on management fees can add up to large savings over time due to the power of compounding. Even a small reduction in fees can have a significant impact on the growth of an investment over a long period. This is because every pound saved on fees is a pound that remains invested and has the potential to earn returns year after year. Over time, this can lead to a substantial difference in the value of an investment portfolio. While investment returns can fluctuate and are not guaranteed, management fees are typically charged regardless of performance. This means that fees will consistently erode the value of an investment over time. Therefore, minimising fees is an important part maximising long-term investment return. PPIC should note that while minimising fees is important, it should not be the sole focus. The overall value provided by the investment, including returns, risk management, and other services, should also be considered. Balancing cost with value is key to effective investment management.

Management Fees are split into different categories;

Management Fees: In the context of the LGPS, management fees refer to the charges levied by investment managers for the administration and active management of the fund's assets. These fees are typically calculated as a percentage of the assets under management and cover the costs associated with making investment decisions, executing trades, and providing regular reports on fund performance.

Transaction Fees: Transaction fees within the context of the LGPS and investment management fees are costs associated with the buying and selling of securities within the fund. These fees are important to consider as they can impact the overall return on investment for the fund. There are two types of transaction costs: Explicit costs and Implicit Costs.

Performance Fees: Performance fees are fees paid to investment managers based on the performance of the investments they manage. These fees are designed to incentivise the manager to achieve returns that exceed a predefined benchmark or target.

The report and confidential appendix were **NOTED**.

10
UPDATE FROM PENSION BOARD

All papers that were brought to the PPIC meeting were covered in a lesser extent at Local Pension Board. There was a pensions administration update from the Pensions Manager which covered updates on McCloud and the pension dashboard.

11
AOB

There was no other business.

12
DATES OF FUTURE MEETINGS

NOTED the future dates as follows:

2 October 2024
12 November 2024
22 January 2025
26 March 2025

13
EQUITY DEEP DIVE - TRAINING SESSION

This was a private training session for members of the committee on Equity Deep Dive.