

LONDON BOROUGH OF ENFIELD
PENSION POLICY & INVESTMENT COMMITTEE
2 MARCH 2016
AON HEWITT – 10 DEVONSHIRE SQUARE @ 10.45 am

MINUTES

Members:

Councillor T. Simon JP (Chairman)
Councillor T. Neville OBE JP
Councillor D. Levy
Councillor D. Pearce
Councillor D. Taylor
Carolan Dobson – Independent Advisor

Absent

Councillor J. Jemal

Officers

Paul Reddaway – Head of Pensions

Also attending:

Daniel Carpenter – Aon Hewitt
Rohan Meswani – Aon Hewitt

1. **APOLOGIES FOR ABSENCE, DECLARATION OF INTERESTS & MINUTES**

NOTED that

- (a) Carolan Dobson is a non-executive Director of a Blackrock investment fund.
- (b) The minutes of the meeting on 19th November 2015 were accepted as being a true record.
- (c) An apology for absence was received from Cllr Jemal.

2. **MANAGEMENT FEES**

RECEIVED: “Fund Management fees briefing note”, a copy of which is included in the Minute Book.

REPORTED: Paul Reddaway presented a briefing paper setting out the full cost of management fees for year ended 31st March 2015.

NOTED that

- (a) The IFRS accounting regulations require the year end accounts to only record management fees that were invoiced; this position understates the true cost of managers fees.

- (b) The fees schedule set the annual cost for each manager. The total cost for 2014/15 was £5.8m compared to £1.2m reported in the accounts. The costs however, excluded any dealing costs or in the case of Adams Street (a Fund of Fund manager), fees paid to other managers not directly appointed by Enfield. The total cost would be closer to £7m.
- (c) Members were content to pay fees where it contributed to outperformance, but recognised the disparity between active managers & passive managers' fees.
- (d) It was agreed the full cost of managers' fees would be shown as a disclosure note in the Pension Fund accounts & Annual report. This would increase the level of transparency and reflect the true costs of fund management.

3. **LONDON CIV PRESENTATION**

RECEIVED: "The London CIV an update", a copy of which is included in the Minute Book and a verbal presentation from Hugh Grover & Freddie Fuller.

The Chairman thanked Hugh Grover & Freddie Fuller for their informative presentation.

NOTED that

- (a) The CIV has received its first investments and has 32 London boroughs.
- (b) It hopes to open the Baillie Gifford Global Alpha fund within the next few weeks, slightly delayed due to issues over Irish stamp duty.
- (c) New funds will open over the coming year. They are currently looking at Fixed Income.

RESOLVED

- (i) The fund should invest £73m in the BG fund with proceeds from the Lazard mandate and part of the Trilogy mandate.
- (ii) Given that there is a £1bn cap on the BG fund for the CIV, officers should make a formal request at the earliest opportunity to reserve £73m for Enfield.

ACTION: PAUL REDDAWAY

4. **PRESENTATION BY BLACKROCK ON LONDON CIV & PROPERTY FUND**

RECEIVED: "The Blackrock – London CIV & Property Review ", a copy of which is included in the Minute Book, and a verbal presentation from Chris Head & John Harding.

NOTED that

- (a) Blackrock explained how Enfield's Blackrock passive funds could be transferred into the London CIV.
- (b) Blackrock is also submitting revised management fee charges to the CIV, but at this stage were unable to disclose them.
- (c) Blackrock explained that 4 London Boroughs had investments in their Property Fund (including Enfield) and would work with the boroughs regarding the transition of the Fund into the London CIV.
- (d) Blackrock explained why the Property Fund had under-performed. Main reasons revolved around too defensive a position (the doctors' surgeries offer a secure yield, but lower returns) at a time when capital values were increasing and because of the transition costs from the capital being deployed from the sales of the marinas. They expect to see most of the growth coming from increased rentals rather than capital growth. The vacant properties in the portfolio offer beneficial opportunities.

5. **BOND PORTFOLIO**

RECEIVED: "Bond Portfolio review", a copy of which is included in the Minute Book and a verbal presentation from Rohan Meswani.

NOTED that

- (a) Blackrock ILG's are held on a buy & hold basis. Maturity of an index-linked gilt in July means this an opportune time to consider re-visiting the ILG holdings.
- (b) One option is to move into a Blackrock pooled passive fund.
- (c) Consideration was given to moving the Western Index linked gilts to the pooled fund (index linked gilts form 10% of the Western portfolio).
- (d) Western Asset would be retained to run a purely Corporate Bond Portfolio.

RESOLVED

Transfer Blackrock segregated ILG holdings to a suitable passive pooled fund with Blackrock. Aon Hewitt to provide a view on an appropriate pooled fund(s) to offer a suitable duration spread

ACTION: AON HEWITT

6. **QUARTERLY INVESTMENT REPORT AND QUARTERLY INVESTMENT OUTLOOK**

RECEIVED: “Quarterly Investment Report Q4 2015”, a copy of which is included in the Minute Book.

REPORTED

REPORTED: The Fund had increased in value over the quarter by 4% against the benchmark of 3.3%. The Fund is ahead of the benchmark for the year by 2.3%. Over the year the fund has increased by 5.6%. This has been helped by the fund’s exposure to alternative investments and exposure to the dollar.

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NOTED:

(a) Blackrock: Passive Global Equity

That, now the due diligence on the AQR Fund had been completed, the Emerging markets holding of £7m (approx.) in the Blackrock Aquila Emerging Markets Fund be disinvested and reinvested in AQR with the balance (required to bring the investment up to £15m) being sourced from the Trilogy mandate.

ACTION: PAUL REDDAWAY

(b) Trilogy: Global Unconstrained Equity

The Fund had out-performed the benchmark by 0.5% this quarter. However, since inception they have been -0.1% below the benchmark.

NOTED

NOTED: That a ‘value’ manager should be in the portfolio; three growth style managers was not a good long term position in the portfolio and another style mandate, within the CIV, should be sought.

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The investment be reduced to allow £73m to be invested in the BG Global Alpha Fund (most of which would come from the Lazard mandate) and £27m in AQR. The aim would be to close the mandate when a suitable value-investment-style manager was available within the CIV.

In the light of Trilogy's benchmark-like performance since inception and the desire to compose a global equity portfolio which is diversified by manager and style, the Committee to consider a manager to replace Trilogy in the global equity portfolio later in the year in conjunction with options available on the London CIV platform.

ACTION: AON HEWITT/PAUL REDDAWAY

(c) MFS: Global Unconstrained Equity

MFS Global Equity strategy underperformed the MSCI World Index by -1.1% over the quarter. However they are ahead of the benchmark since inception by 3.3%.

(d) Lazard: Global Unconstrained Equity

Lazard Global Unconstrained Equity strategy had underperformed the benchmark by -0.5% over the quarter and -3.3% behind the benchmark since inception. Funds will be moved away from Lazard once the BG Global fund is opened on the CIV.

RESOLVED

RESOLVED: To close the mandate once the BG Global Fund is opened on the CIV.

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ACTION: AON HEWITT/PAUL REDDAWAY

(e) Adams Street: Private Equity

Performance of the underlying ASP funds continues to be very strong over all major time periods.

(f) Lansdowne: Developed Markets Hedge Fund

The Fund continued to perform well, with a 2.2% return over the quarter, with performance over the year at 16.9%.

(g) York: Distressed Securities Hedge Fund

The Fund lost -5.4% in dollar terms over the quarter. However, GBP returns were greater given the appreciation of the dollar over the quarter. All strategies were a detractor this quarter. Distressed Credit & Equities made the biggest negative contributions during the quarter, mainly from commodities & oil.

(h) Brevan Howard: Global Macro Hedge Fund

The Fund had another disappointing quarter, and has now experienced losses in capital, which raises concern over the viability of this strategy. This has to be tempered by the fact that the Fund has recovered losses over January & February.

RESOLVED

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RESOLVED Aon Hewitt to complete their review of Brevan Howard and to report back to the Investment Committee.

~~Aon Hewitt to complete their review of Brevan Howard and to report back to the Investment Committee.~~

ACTION AON HEWITT

(i) Davidson Kempner- Event Driven Hedge Fund

During a difficult period for event-driven strategies & distressed debt investing, this multi-strategy fund continues to protect capital. The fund advanced 0.3% in dollar terms and 3.1% in GBP terms.

(j) Gross Global Investors – Event Driven Hedge Fund.

Appointed March 2015 and had slightly underperformed in the quarter.

(k) Blackrock: UK Property

Performance over the 4th quarter was 2.5%, which was 0.3% behind its benchmark. The underperformance was discussed in section 4.

(l) LGIM: UK Property

The Fund had returned 3.0% over the quarter which was ahead the benchmark of 2.8%, but are -0.6% behind the benchmark over the past 12 months. The underperformance has come from a long running void property on the Birmingham retail park. Over a 3 year period the Fund has returned 12.6%pa compared to a benchmark return of 12.2%. The cash holding has slightly increased over the quarter but is significantly lower than the cash holding at the end of June 2014 – 18.3%.

(m) Brockton – Opportunistic Property

REPORTED: The Fund finally closed on 12th February. The business plans for purchases are on target. The Fund has now acquired 6 properties. Following the close of the fund Brockton returned £2.6m to the Fund as part of the equalisation payment. Therefore, the capital called to date is £6m and undrawn commitments are at £14m.

(n) Arcus: European Infrastructure

REPORTED: Following a meeting with Arcus in January the Fund had lost confidence in the manager and had therefore decided to give notice to liquidate its holding with Arcus subject to Arcus's ability to find a buyer for Enfield's complete holding. The outcome of this request will be known by the end of April.

(o) INPP: Listed PFI

REPORTED: INPP continue to perform above expectations and declared an interim dividend of 3.225%, with the final dividend expected to be 6.45%. INPP is currently trading at around a 7% premium to NAV (ex-dividend).



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(q) Western: Bonds

REPORTED: The quarter 4 performance was flat and long term performance continues to lag the benchmark.

RESOLVED

RESOLVED It was agreed to move the existing Western ILG holdings to a Blackrock pooled fund and amend the Western benchmark to be Investment Grade Credit only. Also to review the existing Western guidelines around the flexibility they have to invest in non-benchmark holdings. Aon Hewitt to work with Western to draft appropriate guidelines.

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ACTION: AON HEWITT

(r) M&G: Inflation Opportunities

The Inflation Opportunities Fund had returned 0.4% over the 4th quarter. Since inception the fund has returned 4% p.a. The Fund performs in line with expectations. The Fund still has 15.7% allocation to index linked gilts. The Manager has reported pricing pressures on the back of strong demand from Pension Schemes.

(s) Insight Absolute Return Bond Fund

The manager returned 0.6% over the quarter. Performance continues to be subdued but continues to protect capital.

7. ARCUS UPDATE

(a) As above.

Meeting Closed at 2:45pm.

Signed.....

Date.....

Chairman of Pension Policy & Investment Committee