LONDON BOROUGH OF ENFIELD
PENSION POLICY & INVESTMENT COMMITTEE
22 MAY 2017

AON HEWITT @ 10.00 am

MINUTES

Members:

Councillor T. Simon JP (Chair)
Councillor T. Neville OBE JP
Councillor A Sitkin (Part of meeting)
Councillor D. Levy
Councillor D. Taylor

Independent Advisor;

Carolan Dobson

Officers:

Paul Reddaway – Head of Finance Pension Investments
Stephen Fitzgerald – Assistant Director of Finance
Tim O'Connor – Pension Administration Manager
Jodie Deighton – Operational Support Officer

Also attending:

Emily McGuire – Aon Hewitt, Investment Consultant
Rohan Meswani – Aon Hewitt, Investment Consultant
Alison Trustee – Aon Hewitt, Hedge Fund Research Team (part)
Julian Pendock - London CIV (part)
Paul Tebbit – Blackrock Portfolio Manager (part)
Chris Head – Blackrock Relationship Manager (part)

1. WELCOME AND INTRODUCTION

Apologies for absence were noted from Cllr D. Pearce; and Cllr A .Sitkin for lateness as he had a prior Council business commitment.

2. DECLARATION OF INTERESTS

NOTED:

(a) Cllr Toby Simon declared his wife is a governor of Enfield Learning Trust, a multi-academy trust employer in the fund.
(b) Cllr Toby Simon's wife is a fund pensioner and he has a contingent widower's pension

(c) Carolan Dobson declared she is a non-executive director of the London CIV.
(d) Paul Reddaway & Carolan Dobson both hold direct shareholdings with INPP.

3. MINUTES OF THE PREVIOUS MEETING

Minutes of the meeting held 23rd February 2017 were noted and agreed by all present.

4. MATTERS ARISING

(a) The Committee agreed via e mail that the Fund should take up the rights issue from INPP of approx. 2.7m shares at £1.50 each. The shares are now trading at £1.60.

5. PENSION FUND BUSINESS PLAN

RECEIVED: "LB Enfield Pension Fund Business Plan", a copy of which was circulated by PR prior to the meeting.

REPORTED: PR outlined the work plan for the Committee for the Municipal year. He highlighted that greater attention will need to be paid to the cash flow of the fund as the Fund moves to a negative cash flow position and an update will be included as a standing item. Another key issue for the committee will be to review the Fund's communication policy.

RESOLVED:
The business plan was accepted and would form the basis for the committee meetings during the year.

6. PENSION FUND BUDGET

RECEIVED: "LB Enfield Pension Fund Budget", a copy of which was circulated by PR prior to the meeting.

REPORTED: PR highlighted some of the challenges to the Fund's cash flow, following the Council's transformation programme. This has meant a reduction in employer/ee contributions whilst the number of pensioners has increased. Transfers in/out have been suppressed due to delays in agreeing the revised discount rate.

7. PENSION RISK REGISTER

RECEIVED: "LB Enfield Pension Risk Register", a copy of which was circulated by PR prior to the meeting.

REPORTED: PR outlined the updated risk register and that it would be included as a standing item for the committee. Members of the Committee questioned the potential impact weightings on some of the risks around the custodian and considered they were over emphasized. PR explained this exercise was only a starting point.

RESOLVED:
The Chair requested the risk register will be updated for the next meeting

8. CONTINUING PROFESSIONAL DEVELOPMENT(CPD) POLICY

RECEIVED: “LB Enfield_Pension policy”, a copy of which was circulated by PR prior to the meeting.

REPORTED: PR set out the CIPFA & The Pension Regulator (TPR) knowledge and skills Framework & Code of Practice.

RESOLVED:
(a) The Chair recommended that the report should be re-worded to use the phrase CPD rather than training given the wide experience of the Committee.

(b) PR was asked to develop and document the knowledge & skills framework and bring it back to the next meeting.

9. LCIV update & Review of Diversified Growth Funds (DGF)

REPORTED: Julian Pendock (JP) reviewed the DGF managers on the LCIV and how it may act as a diversification option for the Enfield hedge fund strategy.

JP provided an update of the work of LCIV over the next 5 months. A further 6 sub-funds are scheduled for launch on the CIV platform, 3 under the CQC (Commonality, Quantum and Conviction) mechanism and a further 3 that have come from the global equity procurement process.

The 3 sub-fund launches scheduled under the CQC basis are:

a. Majedie UK Equity (18-05-17)
b. Newton Global Equity (22-05-17)
c. Longview Global Equity (17-07-17)

Additional global equity sub-fund launches following global equity procurement, one in July and two in September:

a. Henderson Emerging Markets (17-07-17)
b. Epoch Global Equity Income (01-09-17)
c. RBC Sustainable Equity (01-09-17).

The Committee discussed opportunities to invest in the new Fund’s on the LCIV.

Work continues on the Fixed Income options for the launch of dedicated funds in this area later in the 2017/18 financial year. The current plan is based on two fixed income and cash flow generating sub-funds to be launched in the first quarter of 2018, although recent feedback from Funds would indicate that this has become a more urgent area of work following the triennial valuation and the changes to their asset allocation strategies flowing from this.

JP stated the LCIV were giving consideration of multi-asset income funds which have targeted returns (e.g. 4-6% and 6-8%). It has received presentations from two providers setting out potential options and CIV are looking to assess more accurately the demand that there might be and will then be looking to put options forward for more detailed discussions.

RESOLVED

The Committee confirmed its decision to move the Blackrock passive emerging equity fund into the CIV Henderson emerging market fund when it opens in July.

It was also agreed to meet with the Longview equity manager on 26th June to assess whether it would be a suitable fund to make an investment, with funding coming from the Trilogy portfolio.

10. HEDGE FUND REVIEW

RECEIVED: "Hedge Fund vs DGF Comparison", a copy of which was circulated by AON at the meeting

REPORTED

Markham Rae

Alison Trustee (AT) gave an update of the Markham Rae (global Macro Fund) where they are 9% down on the year to date. Should the strategy's performance drop below -12% in the coming months, the Manager would enter a risk reducing mode and only carry out transactions that liquidated positions in the portfolio or offset the risk of positions. MR are planning to ask investors for permission to extend the drawdown limit to 17% to allow them to take more risks in order to recoup the losses. In return the Manager is offering a 20% reduction in management fees from 1.5% to 1.2% until they regain their high watermark. MR have given the option for investors to disinvest if they do not accept the proposals through a special redemption to redeem holdings on 1st June.

AT explained MR was advising clients to accept the new proposal and retain funds with MR. Carolan Dobson was concerned at this development and past performance indicated they had not made positive returns for the last three years. On the other hand some members were concerned that the investment was only made in December and it was perhaps too early to redeem the investment, given the rather benign investment conditions.

PR explained he had visited MR in March to discuss the disappointing performance but was assured of the disciplined investment approach and that losses were being limited by reducing risk.

Hedge Fund Strategy
AT explained that the Fund currently has a strategic allocation of 15% towards Hedge Funds. HF provide diversification and reduce the level of risk at the overall portfolio level by targeting absolute returns in all market environments. Hedge Funds provide an 'insurance' policy' against significant market downturn and an allocation towards hedge funds is expected to deliver enhanced portfolio efficiency.

The Fund's overall portfolio has performed well despite this long bull market. Extraordinary central banks actions in recent years have distorted asset prices and have allowed equities and bond assets to deliver historically high levels of returns with relative low associated levels of volatility.

One issue arising from the holding the Hedge Fund allocation are the manager fees. At present hedge funds account for 49% of the Fund's management fees.

RESOLVED:
The Committee committed to disinvest from the MR investment once the formal proposal had been received from the Manager.

The Committee agreed to pause the Fund's proposed investments in Graham & Lynx, whilst the Asset Allocation review is undertaken to see whether the current hedge fund allocation is still appropriate.

11. <u>INVESTMENT UPDATE INCLUDING QUARTERLY INVESTMENT REPORT</u>

RECEIVED:"LB Enfield quarterly Investment Report Q1 2017", a copy of which was circulated by PR prior to the meeting.

REPORTED: Rohan Meswani (RM) gave an update on the Quarterly Investment Report.

The equity portfolio and hedge funds were discussed earlier in the meeting.

Equity Managers
It was noted that whilst Trilogy had had a strong year, it is still behind the benchmark since inception.

MFS have had a difficult year but its performance since inception has been strong.

LCIV Baillie Gifford had a strong quarter outperforming the index by 2%, regaining the ground it lost during the rally in value stocks towards the end of 2016.

Adams Street Partners; performance has been strong over all periods.

Hedge Funds
Lansdowne - have had a disappointing year, the largest detractor for the quarter was the holding in BT Group. Lansdowne believes there is significant upside from the current valuation and is maintaining the position. Exposure to banks has increased and insurance shorts have been cut back.

York – The first quarter saw a continuation of strong credit markets, however there was a material loss on a specific position resulted in the fund giving back the majority of these gains. The current portfolio has 23% in cash, up from 15% in December.

Davidson Kempner – Aon have downgraded the performance component rating from a 4 to a 3. Aon have downgraded the performance rating to reflect the lower risk return nature of this strategy. Performance for the quarter has been broadly flat.

Gruss - The strategy was down 0.2%. The portfolio hedges cost over 2.7% in terms of performance during the quarter. This is disappointing as in Q4 2016 Gruss announced it had sought to evolve its approach to ensure that it was not paying too much for portfolio protection.

CFM Stratus - had a positive first quarter rising by just under 3%. But since inception it is down 3.9%. PR explained he had visited CFM and was impressed by their transparency of transaction and their robust discipline for investment.

Markham Rae – covered in a previous section

Property
LGIM – The manager has reduced cash from 18% to 13.4% but it does remain high compared to the strategic 5% level. The manager has struggled to source enough opportunities to deploy the excess cash. This disadvantages long-term holders.

Brockton – The Fund does not have any exposure to financial firms in London and many of the assets are in the early stage of their business plans. The manager is now more positive than they were post-Brexit but still remain cautious.

Infrastructure
INPP – In early 2017 INNP completed its purchase of a stake in four National Grid distribution networks across the North East of England. The portfolio perform well with revenues and cash receipts in line with expectations. The Fund is seeing an attractive pipeline of new opportunities in UK, Germany and Australia and continues to deploy its commitment in the Thames Tideway tunnel. It is also making an investment in US military housing sector,

Antin – The first call to the fund was made of £200k. This will be used for working capital purposes. Antin expects to complete its first deal in the second half of 2017. There are 34 deals at an advanced or developing stage. The pipeline is split broadly equally across Fund III's target sectors – Transport, Energy & Environment Telecom & Social).

Cllr Simon & Paul Reddaway attended the Antin AGM held in Hamburg.

Bonds
Western Asset Management - The Western mandate delivered a return of 2.4% over the quarter, performing in line with the benchmark.

M&G Inflation Opportunities – Over the quarter the Fund returned 2.6% outperforming the target by 1.2%. Longer term performance remains strong with the fund outperforming the target by 9.1% over past 12 months.

Insight – The strategy returned 0.5% over quarter. Performance over 1 year and since inception has remained positive returning 5.3% and 1% respectively. During the quarter, Insight reduced its risk allocation to investment grade corporates, emerging market debt and current positions.

RESOLVED: LGIM be invited to the August Committee meeting

12. <u>Presentation by Blackrock Property</u>

RECEIVED: 'Blackrock Property Presentation'.

REPORTED: Chris Head introduced the presentation with an overview of the Blackrock portfolio across all asset classes and stated that a fee reduction had been agreed with all the London boroughs holding Blackrock passive portfolio's. In terms of Enfield this will lead to a £135k annual saving, less the 0.75bps LCIV fee.

Paul Tebbit, property Portfolio Manager reviewed the current holdings within the portfolio. The Fund is overweight to sectors which they assess as likely to outperform post Brexit and strategies reliant on income generation; and underweight to London. The former assets have now begun to perform in line with expectations. The portfolio has underperformed in over the last 5 years due to its defensive stance but the Fund is well placed to capture the prevailing economic climate.

The Chair thanked Blackrock for their informative presentation.

The meeting closed at 2.30pm

<u>N.B. Future meeting dates: 22nd May 2017, 23rd August 2017 & 20th November 2017.</u>

Signed………………………………………………… Date………………
Chair, Pension Policy &Investment Committee