

MINIUTES OF THE MEETING OF THE PENSION POLICY & INVESTMENT COMMITTEE HELD ON THURSDAY, 12TH APRIL, 2018

MEMBERS: Councillors Derek Levy, Terence Neville, Daniel Pearce, Toby Simon, Alan Sitkin and Doug Taylor (Leader of the Council)

Officers: Fay Hammond (Director of Finance), Paul Reddaway (Head of Pension Investments) and Tariq Soomauroo (Governance & Scrutiny)

Also Attending: Carolan Dobson (Independent Advisor) , Daniel Carpenter (Aon Advisor) and Rohan Meswani (Aon Advisor),

43. WELCOME & INTRODUCTION

The Chair welcomed everyone to the meeting
Apologies received from Councillor Sitkin and Councillor Pearce

44. DECLARATION OF INTERESTS

Noted:

- A. Councillor Simon declared his wife is a governor of Enfield Learning Trust, a Multi-academy trust, a scheme employer.
- B. Carolan Dobson declared she is a non-executive director of the London CIV.

45. MINUTES OF PREVIOUS MEETINGS: 21 FEBRUARY 2018

Agreed:

The minutes of the meeting held 21 February 2017 were agreed.

46. MATTERS ARISING

46.1 LCIV guarantee

NOTED:

The Director of Finance confirmed that a letter of intent had been signed by 31 March but would await signing the formal letters pending a number of points of clarification on how the guarantee would operate. It was noted that a number of other London Boroughs had taken a similar position.

AGREED:

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- A. Fay Hammond (Director of Finance) would seek further assurances and confirmations from the LCIV.
- B. Delegated authority report (DAR) to be produced, with Councillor Taylor to be consulted.

46.3 Equity transition

NOTED:

- A. Equity transition in progress in line with decisions taken at previous committee meeting. Blackrock had been appointed as transition manager through the Norfolk-led LGPS procurement framework.

46.4 PP&IC terms of reference

NOTED:

- A. Fay Hammond (Director of Finance) and Paul Reddaway (Head of Finance Pension Investments) met on the Governance/Legal team on the 11th April 2018 regarding the Terms of Reference. Discussions with the revolved around voting, insurance and the recruitment process for the appointment of the independent members.

46.5 Meeting outside Enfield

NOTED:

- A. Legal team have been consulted regarding meeting outside Enfield.
- B. It was highlighted that as a local authority we have to be transparent and accommodate any members of the public who wish to attend.
- C. It was proposed that at least some meetings take place in the Borough; this might be in the form of an annual meeting which would include stakeholders.
- D. A comment was made regarding members' disappointment at the length of time which the Legal team had to review this and that a decision still had not been made.

AGREED

- A. Meeting dates and locations to be confirmed for the next municipal year

46.3 Training programme for new Councillors

AGREED:

- A. Training to be made compulsory (similarly to planning and licensing committees) and in line with the training policy agreed in the September committee meeting.

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- B. Member appointments to be for the full duration till the next elections (4 years)

47. TRAINING ON FIXED INCOME & PRIVATE DEBT PRODUCTS

NOTED:

Aon provided a ¾ hour training session on how different fixed income/private debt products and operate they can be used in a pension fund and help with portfolio diversification

48. REVIEW OF FIXED INCOME ALLOCATION

NOTED:

A structured decision was conducted, facilitated by Aon facilitated, based on the headings set out below:

- Review of Current portfolio
- Wider credit opportunity set
- Analysis of portfolios
- The next stage

Aon discussed the impact of lengthening the duration of the Fund's index-linked gilt assets and the impact on risk and return. The Committee and Aon discussed the implication on assets and liabilities and the Committee asked for Aon to provide a paper which considered the interaction between the investment strategy and the discount rate, which affects how the liabilities are valued.

A number of illustrative portfolios were exemplified giving difference risk/return/qualitative factors characteristics.

All the proposed strategies are an improvement on the current strategy, in terms of return and volatility. In each of the strategies the Fund will benefit from a higher level of return for a lower level of risk when further diversification is introduced into the Fund's bond portfolio.

The *Keep it Simple* theme results highlight that an increased allocation to UK investment grade credit has a less efficient (i.e. lower return per unit of risk) investment approach. This is a result of Aon's current negative view of UK Investment grade credit - credit spreads are below 100bps versus gilts and do not compensate fairly for the increased credit risk and liquidity issues likely to arise in a downturn.

Under the *Diversification* theme, having an allocation to global credit significantly reduces the expected volatility of the strategy whilst increasing the expected return. Introducing a global credit allocation (portfolio *Introduce Global*) reduces expected volatility by 2.5% p.a. whilst increasing the expected return by 1.5% p.a. Increasing the allocation to global credit

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(portfolio *Further Global*) would reduce the expected volatility by a further modest amount (by 0.2% p.a.) and increase the expected return by 0.6% p.a.

Having an allocation to private debt (portfolio *Illiquid*) significantly reduces the expected volatility of the strategy whilst increasing the expected return. Investing in global credit and private debt (portfolio *Global & Illiquid*) provides the best risk adjusted returns of all the portfolios modelled. However, the modelling analyses just one aspect of the overall consideration required. The Committee considered the qualitative aspects of the bond portfolio including the governance requirements, London CIV pipeline of assets, number of strategies and fees.

AGREED:

It was agreed to allocate c. £50m to a long only multi asset credit mandate, funded from a disinvestment in equities (in line with previous discussions on investment strategy).

The Committee agreed to leave the index-linked gilt allocation, corporate bond allocation and absolute return bond allocation unchanged for the time being.

Work will continue over the summer with officers and Aon to develop the 'Introduce Global' option portfolio. The Committee asked Aon to provide a paper comparing CQS and one of its 'Buy' rated managers.

48. DATES OF FUTURE MEETINGS

To be decided

49. EXCLUSION OF PRESS AND PUBLIC

The meeting ended at 1530