

# **MINUTES OF THE MEETING OF THE PENSION POLICY & INVESTMENT COMMITTEE HELD ON WEDNESDAY 1ST AUGUST, 2018**

**MEMBERS:** Councillors Mahmut Aksanoglu, Derek Levy, Terence Neville and Doug Taylor (Chair)

**Officers:**

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

**Also Attending:**

Daniel Carpenter (Aon), Katherine Finnimore (Aon) and Carolan Dobson (Independent Advisor)

Councillor Orhan (Observer)

## **WELCOME & INTRODUCTION**

Councillor Taylor welcomed everyone to the meeting

Apologies for absence received for Councillor Stewart, Councillor Eren and Rohan Meswani (Aon).

Apologies for lateness received from Councillor Neville

## **MINUTES OF THE PREVIOUS MEETING**

Minutes from the meeting held on 5<sup>th</sup> July 2018 were agreed without amendment

## **MATTERS ARISING**

Fay Hammond (Director of Finance) also advised that Southwark Council are happy to meet with the Chair explain their approach to fossil fuels within their Pension Fund.

## **BOND PORTFOLIO REVIEW OVERVIEW**

**RECEIVED** Bond Portfolio Review (AON)

**NOTED**

Aon representatives Daniel Carpenter and Katherine Finnimore presented the document.

The Fund conducted an investment strategy review in 2017. The Committee discussed the overall investment strategy, in particular the fact that the Fund's equity allocation is the largest source of risk in the Fund and strong recent returns present an opportunity to crystallise funding level gains and reduce risk in the investment strategy.

## **PENSION POLICY & INVESTMENT COMMITTEE - 1.8.2018**

It was discussed and agreed that the Fund could reduce its equity weighting by c.5%, which would bring it closer to its strategic allocation.

The proceeds could be utilised within the fixed income portfolio which would in turn bring the fixed income portfolio towards its strategic allocation. Fixed income was deemed an appropriate area to invest given its lower risk profile and role as a defensive asset for the Fund.

As a reminder, over the period since the previous strategy was set in 2014, the Fund has had an overweight position to equities, expressed predominantly via an underweight to bonds, as a result of:

- A medium term view on the relative attractiveness of equities versus bonds;
- The general strong performance of equity markets.

The Committee agreed that the additional allocation (c.6% of total assets) to fixed income should be allocated to a multi asset credit mandate in order to reposition the bond portfolio to the strategic allocation.

A MAC fund is available on the London CIV and it was agreed that this fund would be considered. The Committee has previously received a presentation from the London CIV on its bond offerings.

The Committee also asked Aon to put forward a “Buy rated” MAC manager for comparison. Aon provided a paper containing a comparison between the London CIV fund and JP Morgan’s Multi Sector Credit fund.

The Committee agreed to meet both the London CIV and JP Morgan on 1 August to consider their multi asset credit offerings.

### **RECAP ON MULTI ASSET CREDIT ("MAC")**

**RECEIVED** the training on Multi Asset Credit (“MAC”) by Katherine Finnimore  
*AON - CPD 30 minutes accredited*

### **NOTED**

A Multi Asset Credit (“MAC”) strategy is a fixed income strategy seeking to add value by capturing the credit premium across different credit sectors.

Either by finding better companies or by exposure to different credit sectors at different times, a manager hopes to enhance an investor’s return over and above a traditional core credit approach confined to one sector.

A MAC strategy provides the following characteristics

- Increase returns by widening the opportunity set within credit
- Reduction of volatility by actively diversifying across credit sectors
- MAC products have less sensitivity to interest rate changes than core fixed income products and can produce returns in a rising interest environment.

The Chair thanked Katherine Finnimore for a very informative presentation.

## **PENSION POLICY & INVESTMENT COMMITTEE - 1.8.2018**

### **BREAK**

### **MANAGER BRIEFING**

#### **NOTED:**

AON presented an overview of the two MAC managers being interviewed

#### **LCIV Overview**

#### **NOTED:**

Presented: Kevin Cullen (Head of Client Services) & Larissa Benbow (Head of Fixed Income)

The LCIV provided an update of their recently revised governance structure, including their responsible investment strategy. They updated members on the current pooling landscape.

### **LONDON CIV MAC FUND CQS**

#### **RECEIVED** LCIV presentation pack

LCIV presented Kevin Cullen (Head of Client Services) Larissa Benbow (Head of Fixed Income) and a marketing representative from CQS.

Larissa Benbow apologised that the CQS portfolio manager was unable to attend.

The LCIV/CQS – presented an overview of their product. The Chair thanked them for attending.

### **JP MORGAN MULTI SECTOR CREDIT FUND**

#### **RECEIVED:** JP Morgan presentation pack

A presentation was received from Paul Farrell (Managing Director) and Usman Naeem (Portfolio Manager).

The Committee thanked Paul and Usman for their presentation.

### **LUNCH**

#### **1. DISCUSSION AND DECISION**

The Committee noted the following:

Both presentations had merit and represented credible MAC strategies.

#### **AGREED**

Members were not wholly convinced by CQS and were disappointed that the presentation was led by a marketing person and not a senior fund manager.

Members were asked to provide to Paul by the end of the following week any thoughts on the best way to progress. The chair also asked for comparative performance data net of fees.

**PENSION POLICY & INVESTMENT COMMITTEE - 1.8.2018**

**DATE OF NEXT MEETING - Monday 29<sup>th</sup> October 2018**