THE LONDON BOROUGH OF CAMDEN

At a meeting of the **PENSION BOARD** held on **THURSDAY, 8TH OCTOBER, 2020** at 4.00 pm in Remote meeting via microsoft teams. The meeting can be watched live at https://councilmeetings.camden.gov.uk.

MEMBERS OF THE BOARD PRESENT

Councillor Richard Olszewski (Chair), Vinothan Sangarapillai and Steve Worrall

The minutes should be read in conjunction with the agenda for the meeting. They are subject to approval and signature at the next meeting of the Pension Board and any corrections approved at that meeting will be recorded in those minutes.

MINUTES

1. GUIDANCE ON REMOTE MEETINGS HELD DURING THE CORONAVIRUS NATIONAL EMERGENCY

RESOLVED –

THAT the Council's procedure rules for remote meetings be agreed.

2. APOLOGIES

There were no apologies.

The Pension Board noted that Councillor Madlani, Chair of the Pension Committee, had hoped to attend the meeting, but was unable to do so due to other commitments. He would, however, attend the next Board meeting in March 2021.

3. DECLARATIONS BY MEMBERS OF PECUNIARY, NON-PECUNIARY AND ANY OTHER INTERESTS IN RESPECT OF ITEMS ON THIS AGENDA

Vinothan Sangarapillai, Employee representative, declared for the sake of transparency that he was a member of the pension scheme.

4. ANNOUNCEMENTS

Broadcast of the meeting
The Chair announced the following: "In addition to the rights by law that the public and press have to record this meeting, I would like to remind everyone that this

meeting is being broadcast live by the Council to the Internet and can be viewed on our website for six months after the meeting. After that time, webcasts are archived and can be made available on DVD upon request.

If you have asked to address the meeting, you are deemed to be consenting to having your contributions recorded and broadcast, including video when switched on, and to the use of those sound recordings and images for webcasting and/or training purposes."

Order of Business
The Chair proposed and it was agreed that item 8 "Pension Board Update Report" should be taken after item 14, in order for the substantive items to be taken first. The remaining items were considered in the order in which they appeared on the agenda.

5. NOTIFICATION OF ANY ITEMS OF BUSINESS THAT THE CHAIR DECIDES TO TAKE AS URGENT

There were no urgent items.

6. TERMS OF REFERENCE

RESOLVED –

THAT the Terms of Reference of the Pension Board be noted.

7. MINUTES

RESOLVED –

THAT the minutes of the meeting held on 10th October 2019 be approved as a correct record.

8. PENSION BOARD UPDATE REPORT

Consideration was given to a report of the Executive Director Corporate Services.

The Pension Board was reminded that it had responsibility for assisting the Pension Committee in ensuring compliance with the Scheme Regulations, other legislation relating to governance and administration, and the requirements of the Pension Regulator. The Board must also ensure the effective and efficient governance and administration of the scheme. The Interim Director of Finance presented this report which summarised the items presented and decisions made at the Pension Committee meetings on 26th November 2019, 3rd March 2020, 20th July 2020 and 9th September 2020.

Councillor Olszewski said that it had been a turbulent year with massive challenges for the fund managers. At different meetings he noticed that the Pension Committee had expressed concern about a number of managers including Harris and Partners. He recognised that their performance could have been affected by Covid-19, but asked if there were any concerns that the Board should be aware of.

The Interim Director of Finance referred Board members to Table 7 on page 54 of the agenda, which showed the latest performance of all managers. Since inception Harris had returned 7.6%, but their target was 14% so they had underperformed by 6.4% and, therefore, had one of the biggest underperformances. They were holding one of the largest proportion of equities so was a cause for concern. It was noted that the two active equities managers were Harris and Baillie Gifford and both had different investment styles. Baillie Gifford was a growth manager so expected companies to earn more money by growing their market share and returning more. They typically invested in technology and financial service companies. Harris on the other hand was a value manager and so bought companies with cheap valuations in relation to their intrinsic value and sold them when their share price had increased. Those managers had had a particularly hard time and had not been rewarded in the market, whereas growth managers had been in favour since the financial global crisis in 2008/9.

He added that Harris in comparison to the value index had been doing well and had been appointed by other pools in that value category, but the Pension Committee had been concerned at the scale of the underperformance and the value of the assets they held.

Some Partners’ funds had not performed to the 15% target, although it was acknowledged that that was a high bar to reach. The 2009 fund had not done so well, but the 2013 fund had broadly met the 15% target since inception and it was too early to comment on the 2017 fund. It was also too early to comment on Stepstone’s performance.

He reminded the Board that Ruffer and Standard Life were being sold out to cover infrastructure and Insight was also on their way out.

The Chair thanked the Interim Director of Finance for giving an overview of performance of the different funds, which he felt was useful.

Councillor Olszewski welcomed the discussion the Pension Committee had at its meeting in November 2019 around climate change and ESG and which demonstrated that there was more to consider than divesting. It was felt that the Committee would still have to put effort into the approach it adopted towards to climate change and ESG and it was suggested the Board would have a more general discussion around this when the chair attended the Board’s next meeting in March 2021.

TO NOTE: Executive Director Corporate Services

It was noted that, following the concern of the Chair of the Pension Committee in March about the lack of information on the outcome of voting decisions, PIRC was working on this and would submit a report to the March Pension Committee meeting.

Pension Board Members also noted that previously someone had been appointed to the post of Chief Investment Officer (CIO) at the London CIV, but had not remained in that position for very long, so an interim appointment had been made until a permanent CIO could be recruited. London CIV had now appointed Jason Fletcher, who was previously at LGPS central, as the permanent CIO. Although it had been a been a turbulent time for London CIV's staffing levels, they had now built up their team and there was a strong degree of stability.

RESOLVED –

THAT the contents of the report be noted.

9. CLIMATE CHANGE FUNDING IMPACT

Consideration was given to a report of the Executive Director Corporate Services.

The Interim Director of Finance presented this report which had updated the Pension Committee on the analysis of the Actuary on the Fund's liabilities and funding level for differing climate change scenarios and demonstrated the significant impact climate change could have on the Fund.

The Actuary, Hymans Robertson, had offered the Fund some analysis and modelling based on different climate related scenarios, as set out in Appendix A. The scenarios tested were:

Green Revolution: Rapid policy response from government creates the absolute necessity for change which is matched by the deployment of green technologies and ongoing investment in adaptation;
Challenging times: Challenging times reflects delayed policy action. Change is likely to be intermittent at first but is assumed to become more severe in response to growing environmental feedbacks;
Head in the Sand: Policy responses do not prioritise environmental change with corporates largely continuing business as usual type approaches.

The Pension Committee had noted that the results of the modelling showed that the "green revolution" involving a rapid policy response from Government gave the best result of the three modelled and gave an outcome similar to the results of the triennial valuation. It had also asked KPMG, the Fund's investment advisor, to look at the results.

Following discussion and questions it was noted:

- The issue regarding longevity and liability, in the green revolution, liability would increase due to people living longer, and would lead into the market impact as long as the investment profile had been aligned along with this.
- Appendix A, page 71 referred to "Two parties matter most for the impact on pension funds" these being Governments (Policy Response) and Corporates (Market/Technology Response)." The term "Governments" referred to Central Government, decision made by local government pension schemes with regard to how to invest was not core to this impact.
- As requested by the Pension Committee, KPMG had looked at the results of the analysis, but nothing had come out of that. It was important, however, to look at the longer term and be mindful to the fact that there could be disruption in the market place and longevity in future triennial periods.

RESOLVED –

THAT the contents of the report be noted.

10. PREPAYMENT OF SECONDARY CONTRIBUTIONS

Consideration was given to a report of the Executive Director Corporate Services.

The Interim Director of Finance presented this report which was considered by the Pension Committee in March and followed on from a report in November 2018. It set out phase two of a proposal from the Council, as the major employer in the Fund, to prepay its secondary contributions early for 2020-2023, in line with the current triennial valuation period.

He reminded the Board that employers pay for the ongoing benefits that their members were accruing which were called the primary contributions. The secondary contributions were paid to catch up with the deficits as they fall to each employer in their segment of the fund.

It was noted that the Council could make a single payment of £57.3m at the beginning of that 3 year period using the implicit growth rate in the Investment Strategy, which would be lower than the £61.3m it would have to make over the 3 year period. This would give the Fund the ability to invest the cash early and the ability for the Council to make a lower payment.

However, the Council had decided not to make the prepayment on 1st April 2020 because it coincided with the Covid-19 pandemic, which had been a shock to all councils, businesses and central government. The council tax receipts were not as big as expected, rents were difficult and business rates were also a problem given that Camden was the third largest preceptor in the country. The Council was now expecting to make that payment at some point this year.

The Actuary assumed the growth rate at 4.5%, which was in the investment strategy review. If investments were made in line with that he would give a discount of 4.5%.

It was noted that there was no real risk to the Fund in this arrangement because, if the 4.5% growth did not materialise in 3 years at the next triennial valuation, the Council would have to pay higher contributions in future triennial valuations. Furthermore, looking at the September 2020 performance figures which included the Covid-19 period, the average growth the Fund had experienced over the last 3 years was 4.5%. Also since inception of the Fund, the data collected over that 10 year period, showed that the Fund had grown 9.2%. The rate suggested by the Actuary was, therefore, what would be expected.

RESOLVED –

THAT the contents of the report be noted.

11. FUND MATURITY

Consideration was given to a report of the Executive Director Corporate Services.

The Interim Director of Finance summarised this report which presented the results of an exercise to estimate the Fund's maturity (the balance between benefits paid and contributions received). It was explained that when payments exceed receipts the Fund was considered to be mature.

The Fund's actuary, Hymans Robertson, periodically undertakes analysis of the receipts and payments in the Fund to identify maturity. The November 2016 report showed that the Fund was expected to be slightly cash flow negative in the earlier years with cash flow varying between outflows up to £12m in the period up to 2025. After this time the gap became increasingly larger between contributions and benefits paid and showed how the Fund was predicted to become mature and increase its maturity. After 2034 net cash outflow increased significantly (c£40-50m) as payments from deficit repayment contributions stopped after the 17.5 year recovery period.

The modelling this time took account of the 2019 valuation liability data and so gave the very latest information on cash flow and maturity. The Fund was not yet cash flow negative (or mature) and would remain broadly cash flow neutral until 2028. This was good news as it meant that the Fund did not have to redeem investments to fund benefit expenditure. After 2034 the results showed that the deficit contributions ceased and so the cash flow gap increased and was significant thereafter between contributions received and benefits paid.

With regard to a timeline when strategic decisions would need to be made to address this issue, it was noted that as part of the Investment Strategy review, the investment consultant looked at this and considered what proportion of the assets the Fund would need to keep liquid or not tie up in long term structures like private equity or property where cash was committed and could not be withdrawn. Cash could, however, be called back from passive investments and often be done quickly, for instance in a week.

It was noted that the Council's staffing headcount had been declining for a long time, and Members asked if the longer term impacts on liabilities had been factored in. The Interim Director of Finance informed the Board that whilst employees in the Council had been reducing, they still made up 86% of the Fund. Furthermore, active membership had been increasing since March 2018 due to auto enrolment. In March 2016 it was just below 5000, in 2018 it was 5200 and now it had reached 5800. The Council was also considering insourcing some procurement services which could increase active members as well. With more members came more contributions and the average age would be lowered. From the maturity side it was good but it did mean more liabilities, but these would be moved further into the future due to the younger age of members. It was, therefore, important to monitor the situation.
Some Members expressed surprise that 9000 members had deferred their pensions, although they noted that the pensions they would be receiving were very low, averaging £2600 and assumed that they had only worked at Camden for a few years. It was recognised that people were reluctant to switch pensions from a local government pension scheme (LGPS) to a private sector scheme as there were more benefits in a LGPS. They were also likely to have to seek financial advice if switching to a non-final salary scheme which could incur a cost.

The Pension Board noted that the Pension Committee had noted the contents of the report.

RESOLVED –

THAT the contents of the report be noted.

12. INVESTMENT STRATEGY REVIEW

Consideration was given to a report of the Executive Director Corporate Services.

The Interim Director of Finance summarised this report which presented the results of an investment strategy review by the Fund's Investment Consultant, Isio, on the Fund's strategic asset allocation. He explained that this was one of the most important reports the Pension Committee had to consider.
Asset allocation was a major driver of Fund returns more so that individual fund manager performance. From a strategic asset allocation perspective, the Fund was not wildly different from the PIRC universe in terms of the way the Fund invested its assets.

He highlighted the following points in the report:
- The Fund had an above average UK equity basis and the report looked at the split of overseas equities

- It provided a core value at risk analysis, which showed a lot of equity risk and inflation risk and suggested how this could be reduced
- It provided a liquidity profile and cash flow profile
- It also reported on the various scenarios of different assets, long lease property, inflation linking and how passive and active assets could be changed
- It settled on inflation linked assets and long lease property

Pension Board Members noted that Appendix C to the report contained more information on the non-equity review. This was a Part II appendix, as it contained information relating to the financial or business affairs of particular persons and was, therefore, not available to the public. Board Members confirmed that they had read the appendix and would take it into account when making the decision.

It was noted that the Fund's actual position diversified from its strategic choices. It was explained that the increase in equity markets had driven the imbalance. It had been decided to take money away from equities and give it to fixed income. Some funds had decided to balance this on a quarterly basis, but the Pension Committee had chosen not to do this as money would be taken away from the assets classes doing well and given to those performing poorly. The Fund's asset manager would buy assets at a low price which he believed would do well in the future and then would sell them when their value had increased. It was decided to sell off some assets with volatility as there was risk in those and buy other asset classes which were less volatile.

In response to a question, it was noted that the Pension Committee had considered the long term investment in property, particularly in city centre retail property, given the impact Covid-19 had affected the retail sector. Item 14 "Long Lease Property" (LLP) on the agenda said that the Fund was investing in a LCIV fund which looked at the rental yield of LLP over a number of years. This included sectors such as offices, retail distribution and other opportunities, some of which were performing well. It was noted that the Pension Committee was considering all these factors. Councillor Olszewski suggested that Councillor Madlani, Chair of the Pension Committee could be asked to focus on how the Pension Committee was looking at these issues when he attended the next Pension Board meeting.

TO NOTE: Executive Director Corporate Services

The Pension Board noted that the Pension Committee agreed the following:

1. To agree in principle to move to the asset allocation recommended in strategy 1 in the non- equity strategy paper (Appendix A);
2. To receive a report on implementation of the Long Lease Property allocation (5%) in September evaluating the London CIV's inflation plus sub-fund alongside other options;
3. To receive a report on how to achieve the increase in inflation linked assets (additional 5%) in November;
4. To agree in principle equity allocations recommended in the equity strategy paper (Appendix B) which reduces equity exposure from 60% to 50% and sets the active equity proportion within equities to 40%;

5. To receive a paper in November on how to fill the 30% equity allocation (Appendix B) to a more specific ESG focussed allocation and consider operational issues in how to trim the active equity managers and implement the strategy.

RESOLVED –

THAT the contents of the report be noted.

13. RISK REGISTER

Consideration was given to a report of the Executive Director Corporate Services.

The Interim Director of Finance summarised this report which presented an update to the risk register for the Pension Fund, with an action plan stating how risks would be managed.

It was noted that:

- This year following the triennial valuation and a changed basis for calculating the funding level old risk 4 that ‘liabilities are no longer linked to gilt yields’ had been deleted as liabilities were now linked to investment returns with an expectation of a 70% likelihood of achieving returns of 4.5%.
- Under demographic risks - risk 21 ‘Deteriorating active membership’ was not considered such an issue as active members are increasing. The score had been reduced from 12 to 8 to reflect this.
- Risk 53 regarding fossil fuels had a low impact as only 4-5% of the Fund’s equities were now invested in fossil fuel associated stocks.

The Pension Board noted that the Pension Committee agreed the risk register, as attached at Appendix 1 to the report.

RESOLVED –

THAT the contents of the report be noted.

14. LONG LEASE PROPERTY

Consideration was given to a report of the Executive Director Corporate Services.

The Interim Director of Finance summarised this report which presented the report by the Fund’s Investment Consultant, Isio, on the proposed Long Lease Property (LLP) mandate which was proposed as part of the Investment Strategy Review in July 2020.

Isio had been commissioned to review the London CIV's Inflation Plus fund, which had been identified as a good fit for this asset allocation. Their work was also scoped to examine other best in class managers and formed Appendices A and B to the report. Isio were asked to consider Environmental, Social and Governance issues in their brief as well as the Independent investment advisor's points.

It was noted that Appendix A set out Isio's report on long lease property and the fit of the London CIV's Inflation plus sub-fund to Camden's requirements. The Pension Board also noted that Appendix B set out further information on long lease property investment managers and their processes. This was a Part II appendix, as it contained information relating to the financial or business affairs of particular persons and was, therefore, not available to the public. Board Members confirmed that they had read the appendix and would take it into account when making the decision.

The London CIV's sub-fund was managed by Aviva and their presentation was contained at Appendix C.

It was noted that following the July Pension Committee meeting, the Camden Fund agreed, in principle, to make a 5% allocation to long lease property. Given the regulatory framework for LGPS funds, there was a preference to invest via the London CIV if a suitable investment option is available. London CIV did not currently offer a proposition with 100% long lease property exposure, however, their newly established Inflation Plus Fund would be comprised of LLP assets in the majority, alongside other real assets predominantly with long dated inflation linked characteristics. Isio believed the fund would deliver the key investment benefits that an LLP allocation would bring to the Camden portfolio. Namely, a stable and inflation-linked income yield, access to an illiquidity premium, and cost effective risk-adjusted returns.

Although supporting the proposal to invest long term in property, as it was a good asset class, some Pension Committee members felt that consideration needed to be given to the long term impact of Covid-19 on property, particularly commercial property, given that there was a move away from offices to home working. Isio's view was that there would be a correction in property prices over the next 6 – 12 months, particularly in the core commercial market, less so in long lease which was more resilient. The London CIV would buy high quality property with good quality tenants in it for the long-term, 20 years plus. Their view was that value came from the income, rather than the capital prices. Page 312 showed the property sectors and current range of assets all with leases in excess of 20 years and all were doing well.

The Pension Board noted that the Pension Committee had agreed:

1. The appointment of the London CIV Inflation plus sub-fund to manage 5% of the Fund's assets (£90m) as set out in paragraph 3.1; and
2. To fund this mandate by withdrawing assets from Standard Life and Ruffer first and then with cash in hand from the contribution prepayment, as detailed in paragraphs 2.9 and 2.10.

RESOLVED –

THAT the contents of the report be noted.

15. ANY OTHER BUSINESS THAT THE CHAIR CONSIDERS URGENT

There was no urgent business.

The meeting ended at 5.40 pm.

CHAIR

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MINUTES END