THE LONDON BOROUGH OF CAMDEN

At a meeting of the **PENSION COMMITTEE** held on **THURSDAY, 23RD SEPTEMBER, 2021** at 6.30 pm in The Council Chamber, Crowndale Centre, 218 Eversholt Street, London, NW1 1BD

MEMBERS OF THE COMMITTEE PRESENT

Councillors Rishi Madlani (Chair), Heather Johnson (Vice-Chair), Jenny Mulholland and Abdul Quadir

MEMBERS OF THE COMMITTEE ABSENT

Councillors Lorna Russell, Ranjit Singh, Stephen Stark and Shiva Tiwari

TRADE UNION OBSERVERS PRESENT

Kathy Anifowose – Camden UNISON

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 Committee and any corrections approved at that meeting will be recorded in those minutes.

MINUTES

1. GUIDANCE ON HYBRID MEETINGS

RESOLVED –

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

2. APOLOGIES

Apologies for absence were received from Councillors Stephen Stark, Shiva Tiwari and Ranjit Singh.

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

There were no declarations.

4. DEPUTATIONS (IF ANY)

There were no deputations.

5. ANNOUNCEMENTS

Broadcast of the meeting
The Chair announced that “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 twelve months after the meeting. After that time, webcasts are archived and can be made available upon request.

If you are seated in the Chamber or participating via Teams, you are deemed to be consenting to having your contributions recorded and broadcast, and to the use of those sound recordings and images for webcasting and/or training purposes.”

Councillor Quadir
The Chair informed the meeting that Councillor Quadir had had a minor operation this week but thanked him as he was in attendance at the meeting. He wished him a speedy recovery.

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

There were no urgent items of business.

7. MINUTES

RESOLVED –

THAT the minutes of the meeting of the Pension Committee held on 28th July 2021 be approved as a correct record.

8. PERFORMANCE REPORT

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

The Committee noted the performance of the Camden Pension Fund investment portfolio and the individual investment managers for the quarter ended 30 June 2021 (quarter 2 of 2021) and since manager inception.

The Committee noted in particular that:

- The portfolio had a market value of £2.212bn at 30 June 2021, compared with £2.095bn at 31 March 2021, an increase of 5.6%. However, this figure included the prepayment of secondary contributions by Camden Council, so excluding this, the overall return on the Fund's investments was 5.6%, which was still in excess of the composite target of 4.7%
- The Fund's equity allocations still remained above the strategic asset allocation levels, due to strong outperformance of equity markets over successive years. The high proportion of equities drove much of the volatility in overall returns. The Fund was outside the target ranges in all asset classes apart from property and private equity. This would be addressed as the Fund implemented its new agreed investment strategy.
- The Fund had now completed its transition from the L&G UK Equities Fund to the Future World Fund, in which at the end of June 2021 the Pension Fund had £270m invested.
- The estimated funding ratio in June 2021 of 124% (£1.784m of liabilities) was based on the investment strategy returning in-line with the actuary's estimations for the coming years and decades. Long-term asset performance was, however, considerably above the actuary's historic expectations.
- The Fund had outperformed its composite target by 0.9% in Q2. This was far more than what the actuary assumed (4.5% per annum) at the last Triennial Valuation. Since inception, the Fund had returned 10.2%.

Committee Members noted Appendix A "Camden Client Ranking by Manager" which detailed Camden's exposure as clients to the overall fund or strategy managed by Investment Managers. Where Camden represented more than 5% of each fund and there was a material increase, due to client outflows, this would be reported to Committee on an exceptions basis.

The Committee also noted Appendix B, which presented a more comprehensive overview of the financial markets by the Independent Investment Advisor and reported the performance of the individual Investment Managers in more detail. Karen Shackleton, Independent Investment Advisor, highlighted the salient points as follows:

a) **London CIV - Baillie Gifford** – This sub-fund delivered a return of +7.11% in Q2, outperforming Harris by +1.2% for the quarter but underperformed Harris by -9.9% for the 12-month period. However, Baillie Gifford outperformed its target over 12 months and continued to show long term outperformance. They had a very strong absolute return of +30.83%. The beta on the portfolio as at quarter end stood at 1.23, which meant that if the market fell by 10%, the portfolio was expected to fall by 12.3%. The London CIV (LCIV) monitored this manager and was "disappointing" that the manager did not generate high relative returns over the quarter, particularly since Growth outperformed Value style indices in Q2. LCIV noted that much of the strong performance from the index was driven by "FAANG" stocks (Facebook, Amazon, Apple, Netflix and Google), to which the portfolio had less exposure. Also an investment in China Brilliance (around 0.2% of the portfolio) was written down by 50% following regulatory investigations. Baillie Gifford had written to management, but there had been no response to date. London Borough of Camden's investment represented 13.13% of the fund.

b) **Harris –** Harris outperformed the Value Index, but against the market capitalisation index, their stock selection had a negative impact, decreasing performance by -1.08%. Sector selection detracted a further -0.25% from the return relative to the index in Q2 2021. Most of the negative return from stock selection came from holdings in consumer discretionary, which detracted -0.97% from the return. Despite a poor quarter in relative terms, for the past 12 months, Harris had outperformed its performance target by +12.47%.

c) **Insight** – The fund performed positively in absolute terms (+0.4%), and in relative terms it underperformed the benchmark by -0.6% in Q2 2021. Over three years, however, it continued to fail to meet its target of outperforming the benchmark by +4.0%.

d) **Legal & General –** The observed tracking errors on the pooled index funds were within expected ranges during the quarter. There were no concerns.

e) **CBRE** – The Independent Advisor, officers and Committee Members met with CBRE this week. This quarter showed a mixture of both positive and negative returns, although the majority were positive. Two funds were of concern – Lend Lease Retail produced the worst returns for Q2 at -13.5%, attributed by the manager to a decrease in the value the fund was holding in Bluewater shopping centre and Touchwood, Solihull. Touchwood had now been sold but Bluewater needed to be monitored. The Nuvene shopping centre was also a concern and held 3 assets of concern, including the Bullring in Birmingham. As at quarter end the portfolio had 23 investments and leverage on the portfolio stood at 11.10%, a slight decrease from the last quarter at 11.40%.

f) **Partners** – The 2009 Fund the 2009 Fund had invested in a total of 61 investments, with 39 investments having now been realized. This Fund was fully invested, and Partners had called down 95.3% of committed capital. 11% of the investments were above expectations, 20% were meeting expectations, 59% were outperforming and 10% had issues.
The 2013 Fund had made 42 investments, with 14 having been realized. It was 72% contributed and had distributed 57.6% since inception. 7% of investments were outperforming , 10% were above expectations, 57% met expectations 22% were too early and 4% had some issues. The 2017 Fund remained in its value creation stage.

g) **Barings –** The fund was fully liquidated and closed on 30th June 2021.

h) **Aberdeen Standard Life –** Standard Life GARS had a positive quarter and delivered a return of +0.7% in Q2 2021. However, it underperformed the performance target which returned +1.3%. The manager had asserted that they need 60% of their central return forecasts to be positive, in order to achieve their cash target of six-month LIBOR plus 5%. At present they were only achieving a success rate of 40% (in Q2, 14 strategies added value and 21 were neutral or detracted value). The expected volatility of GARS stood at 7.7%, which was 46% of the volatility of equities (16.9%), and within the normal range expected (the manager expected the volatility on GARS to be around one-third to one-half the volatility of equities).

i) **London CIV - Ruffer –**. The fund no longer invested in Bitcoin which had previously been a concern. The one-year return as at end of June 2021 was positive at +14.3%, comfortably ahead of the performance target of +3.1%. The manager was also ahead of the target over three years, delivering a return of +6.7% per annum. As at end Q2 2021, the fund had a beta of just 0.26, which meant that if the equity market increased by 10%, the fund would be expected to rise by 2.6%. The sub-fund was valued at £1,121.8 million as at end June (up from £1,018.3 million in Q1). Camden's investment was equivalent to 6.36% of the Fund.

j) **HarbourVest –** Camden's Fund had committed $86.3 million to HarbourVest's Global Fund 2016. Around 73% had been drawn down as at 30th June 2021. A total of $38m had been distributed back to investors (0.61x capital paid in). 42% of the investments were above expectations, 45% were meeting expectations, and 14% were currently below expectations.

k) **London CIV – CQS** –The fund returned +2.0% which was above the target return of 3 months of LIBOR +4.5% (+1.1%). The one-year return for the fund was ahead of the benchmark by +8.7%. The fund was still under enhanced monitoring, but the hiring of a second manager to the fund would help with some of LCIV's concerns.

l) **London CIV – Infrastructure Fund** – The fund was progressing steadily and capital calls had been made which indicated that the deployment rate had picked up.

It was noted that in accordance with the Committee's decision taken at is meeting on 28th July 2021, the Executive Director Corporate Services, in consultation with the Chair of the Pension Committee, had taken the decision in September 2021 to switch the Pension Fund's investment from the current Baillie Gifford sub-fund to the Paris-aligned version.

The Chair suggested that performance targets would need to be reviewed in the future as 15% was not realistic and needed to be more in line with the market. It was noted that ISIO had been asked to look at the performance of the two property managers, in their peer groups and whether they were best in class or not. As previously mentioned CBRE had struggled to meet their target and had problem with two of their funds. Consideration would also be given to whether Camden wanted to invest in the next Partners fund. A report would be brought to a future Committee meeting on this issue.

ACTION BY: Executive Director Corporate Services

It was recognised that retail property was struggling due to a change in shift of buying habits. The Independent Advisor said that the Fund managers should decide which sector of property was the best to invest in. If they felt that retail was struggling, they could shift to another form of property investment, like industrial or health care property investments or student accommodation. In the long term they were likely to move away from those type of funds.

RESOLVED –

THAT the contents of the report be noted.

9. RISK REGISTER

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

The Committee noted an update to the risk register for the Pension Fund, with an action plan stating how risks would be managed. The Risk Register identified key risks that the Pension Fund faced in achieving its objectives. By considering risks and assessing their likelihood and impact the Fund could focus on what action was needed to manage them. The Fund's Independent Investment Adviser and Actuary had been consulted and had fed into the register.

The risks were categorised under the following headings: Financial, Demographic, Regulatory, Governance and Administration. The updated Risk Register was presented in Appendix 1. Changes had been 'tracked' so new text or risks were shown underlined. Scores that had changed were also shown with tracked changes to help to identify new changes and show old text crossed through.

It was noted that if risks changed from quarter to quarter then this would be reported at the next quarterly meeting, if significant.

Committee Members also noted that one risk, "18. Fraud risk" was judged to have increased, whereas several risks had reduced risk scores this year, namely:

41. Pool strategy deferral
1. Fund assets underperform
7. Market failure
6. Investment vehicle not understood
13. Employer Contribution increases

Douglas Green, Hyman Robertson, the Fund Actuary, was in attendance at the meeting. He explained that the Pension Fund did three main things
- it collected money in the form of pension contributions from its members and the Council and other employers;
- it invested that money; and
- paid those assets to the benefit of its members when they retired or paid their dependents when they died.

When the Actuary carried out an evaluation they would take all of those aspects into consideration and look at any risks. The Actuary would

- Carry out modelling based on markets and the likelihood of certain things happening
- Look at who the individual employers were, the employer register was a key part of discussion
- Look at the detail of the pension scheme members, working very closely with officers and the shared pension service
- Ensure that concrete decisions were taken with regard to employee contributions
- Keeping investment strategy up to date and in line with current legislation

- Consider key assumptions, for instance was how long a pensioner would live in retirement

He added that training was important to ensure that the Committee understood all aspects of the LGPS. There was a suite of training material, videos, questions and quizzes on the LGPS On line Learning Academy. He suggested that this should form part of the rolling training for Committee Members on LGPS matters.

Risks, however, could not be mitigated 100%. For instance, inflation and interest rates would affect the Fund, as did longevity. The Independent Advisor added that the Pension Fund was an open scheme, members were constantly joining and leaving. This register allowed Committee Members to assess the risks. She stressed, however, that there were no risks that were likely to happen.

It was recognised that currently interest rates were very low which was unprecedented. There was protection in the portfolio. Officers suggested that high inflation and interest rates would result in the value of liabilities going down because they would be discounted at a higher rate. High rates did not always have a detrimental effect on the deficit.

The Chair suggested that for the November meeting, officers should ask each fund manager what the impact would be around the evolving interest rate environment and the associated risks. This information should then be included as part of the Market Summary section of the Performance Report. It was important to have a snapshot of the risk implications of interest rates across the portfolio and get a steer on the implication of that on our liabilities.

ACTION BY: Executive Director Corporate Services

It was noted that Risk 27 “Forced Merger of LGPS funds” seemed to have gone down and was amber. It was noted that that had not been changed as pools across the country were still keen to demonstrate that they were pooling. Central Government had gone quiet on this. The LCIV pooling percentage was currently around 50% but they were looking at increasing this to 75% by 2025. It was still important that the Fund demonstrated Camden was still committed to pooling.

RESOLVED –

THAT the Risk Register be agreed as set out in Appendix 1.

ACTION BY: Executive Director Corporate Services.

10. ENVIRONMENT, SOCIAL AND GOVERNANCE FUND MANAGER METRICS

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

The report presented comparative analysis of the Fund's investment managers' performance on Environment, Social and Governance (ESG) issues against peers and national indicators.

The Committee noted that

- the proportion of assets in fossil fuels had fallen from 12.81% in 2010 to 4.66% in 2020. At June 2021, the percentage equity holdings invested in fossil fuel related companies was 3.29%. This was a positive move towards the journey to net zero carbon economy. An analysis of the Fund's carbon footprint would be brought to Committee in November.
- With regard to section 3, that all Fund's investment managers were signatories to the United Nations Principle for Responsible Investment (UNPRI). Each signatory to the UNPRI was required to undergo an annual review which assessed how a participant had implemented the principles of UNPRI in their investment process. Table 2 showed the Fund manager's UNPRI ratings.
- Harris rated B for Strategy and Governance. Some of the areas they scored poorly in were responsible investment (RI) in roles and responsibilities, in personal development/training and promotion of RI. Harris had a new Director of Responsible Investment who joined the firm in 2020. Harris commented that they recognised the value of connecting with other organisations, including civil society groups, trade associations, government agencies, and industry peers and had interacted with a number of external groups during the quarter.
- Table 3 regarding the gender pay gap and mean bonus gap, showed that there was a lot of work to do as manager's were not meeting the national average and the mean bonus gap was even wider. There was an anomaly with Partners and officers were seeking more information regarding how they collected data as it seemed very different from the others.
- Table 4 showed the Board/Employee diversity. Some managers were doing well at Board level, but some would have to do a lot more to improve at Executive/senior management level.

The Chair asked for the information in the next report to be more aligned with SDGs and investment strategy and include metrics in work and growth. He suggested that Committee Members could also discuss this at their next Investment Beliefs session.

ACTION BY: Executive Director Corporate Services.

It was also agreed that the Committee would write a personal letter to Harris stating that, given the extended deadline on UNPRI, the Committee would like to see them hit the target into the higher scores.

ACTION BY: Executive Director Corporate Services.

With regard to the gender pay gap, it was agreed that the Committee would write to the managers which did not provide the required data and publish the information on the website. The Chair also asked officer to confirm with Partners that the information was correct that they had a negative gender paygap.

ACTION BY: Executive Director Corporate Services.

It was agreed that a letter would be sent to those managers who were far behind to say that the Fund's voting policy would be to vote against those Boards with less than 30% of women on their Boards and ask that they update the Committee with the action they were taking to address this. These letters were to be published on the Camden website.

ACTION BY: Executive Director Corporate Services.

It was noted that Councillor Madlani was chairing the Diversity Working Group and would share this report with them.

Councillor Johnson had been doing a lot of work on LAPFF in what she regarded was a very complex area. She said that she felt that, in addition to fossil fuels, there were other things to be concerned about that could affect the environment and people, for instance mining and land use. When looking at alternative power, some involved the use of rare metals which were found in places around the world and affected the land and the people living in those areas. It was not just a question of simply divesting in fossil fuels completely, it was important to look at what these companies did invest in and the practices they operated. Energy consumption also needed to be looked.

RESOLVED –

THAT the contents of the report be noted.

11. LONDON COLLECTIVE INVESTMENT VEHICLE PROGRESS REPORT

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

This report provided a quarterly update on developments at the London Collective Investment Vehicle (CIV) in creating sub-funds for the spectrum of asset classes, on-boarding of assets and development of the CIV's staff resource. Progress with the London CIV contributed to the Government's pooling agenda and drive to reduce costs in the Local Government Pension Scheme (LGPS).

The Committee noted that additional information on the Fund launch plan and progress to date was provided in the restricted Appendix A. This was a Part II appendix, and was, therefore, not available to the public. Committee Members confirmed that they had read the appendix and would take it into account when making the decision

It was noted that the Councillor Madlani had attended the first in person AGM in July. He set out the three priorities he wanted to lead on for the LCIV which were implementing responsible investment, ensuring that costs were returning value for money, and diversity and people.

RESOLVED –

THAT the contents of the report be noted and any comments on progress be fed back to the Chair and officers.

ACTION: All

12. ENGAGEMENT REPORT

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

The Committee noted an update of engagement activity undertaken by the Fund and on its behalf by LAPFF (the Local Authority Pension Fund Forum) since the last Committee meeting. This work was important to the Fund's ambition to be a fully engaged investor and demonstrates its commitment to Responsible Investment and engagement in Environmental, Social and Governance (ESG) issues as a way to achieve its objectives.

It was noted that the Head of Treasury and Financial Services was leading some work with regarding split voting. He explained that with a pool fund there were a number of its constituent funds which wanted to vote in different ways, but most pool funds would not allow this. When the Pension Fund was in the UK Energy Fund it managed to get them to vote as its wanted. However, the Pension Fund was now in the Future World Fund and had to vote in accordance with their policy. This was significant step backwards for the Pension Fund which regarded its voting policy to be very important and which PIRC had considered to be cutting edge. The head of Treasury and Financial Services was leading some work with PIRC and L&G to see if the Fund could exercise its votes as intended and in accordance with its investor beliefs. Committee Members felt that this was very important and should be escalated in any way possible.

TO NOTE: Executive Director Corporate Services

Councillor Johnson informed the meeting that the LAPFF meetings and webinars were very interesting and informative and urged Committee Members to attend.

TO NOTE: All

Committee Members had been sent details but were reminded that the LAPFF conference was due to be held from 8th to 10th December 2021 in Bournemouth, which they were encouraged to attend.

ACTION BY: All

RESOLVED –

THAT the contents of this report be noted.

13. BUSINESS PLAN

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

The Committee noted the items scheduled for future agendas of this Committee together with a record of training/meetings attended and a list of future training opportunities.

It was noted that there were a number of changes to the future items listed in Appendix 1. The Employer Contribution strategy might be brought forward from September 2022 to July 2022. Longevity and Maturity reports, which were part of the triennial cycle and would be submitted to the November 2022 meeting. A report on Investment Strategy would also be considered at that meeting.

The Chair said that in the recent meeting with investment managers the slides presented by the managers did not include all the SDG issues requested. Officers were asked to write to all Investment Managers to reiterate the Committee's requirements that climate, gender equality and decent jobs and work were included in future.

ACTION BY: Executive Director Corporate Services

RESOLVED –

THAT the contents of the report be noted.

14. ANY OTHER BUSINESS THAT THE CHAIR CONSIDERS URGENT

There was no urgent business.

The meeting ended at 8.15 pm.

CHAIR

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MINUTES END