THE LONDON BOROUGH OF CAMDEN

At a meeting of the **PENSION BOARD** held on **MONDAY, 15TH NOVEMBER, 2021** at 5.00 pm in Committee Room 2, Crowndale Centre, 218 Eversholt Street, London, NW1 1BD

MEMBERS OF THE BOARD PRESENT

Councillor Richard Olszewski, Steve Worrall and Vinothan Sangarapillai

ALSO PRESENT

Councillor Rishi Madlani

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 HYBRID MEETINGS

RESOLVED –

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

2. APOLOGIES

There were no apologies.

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 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."

Order of Business
Councillor Olszewski proposed, and the Pension Board agreed, that item 12 "Pension Board Update Report" should be taken after item 7 "Minutes", as Councillor Madlani was in attendance to present an overview of the work of the Pension Committee during the previous year. 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

It was noted that there was a vacancy for an Employee representative on the Board. The Executive Director Corporate Services was asked to commence the process to fill this vacancy in time for the next meeting in March 2022.

ACTION BY: Executive Director Corporate Services

RESOLVED –

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

7. MINUTES

RESOLVED –

THAT the minutes of the meeting of the Pension Board held on 8th October 2020 be approved and signed as a correct record.

8. SUSTAINABLE EQUITY AND INFLATION LINKED STRATEGIC ASSET ALLOCATIONS - NOVEMBER 2020

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

The Pension Board noted that the Fund had reviewed its Investment Strategy during 2020 and this had culminated in a report to Pension Committee in July. The Committee agreed, in principle, changes to the Fund's strategic asset allocations, and to receive papers at its November 2020 meeting providing more detail on these asset classes and setting out implementation plans.

Pension Board Members noted that Appendix A set out Isio's (the Fund's Investment consultants) report on sustainable equity and the fit of four potential equity funds available for investment by Camden through or alongside the LCIV platform. Further details on those equity funds were contained in Appendix A1 which was a Part II appendix and was not for publication as it contained commercially sensitive information. Board Members confirmed that they had read the appendix and would take it into account when making the decision.

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

1. To appoint Legal & General Investment Management (LGIM) to manage the passive sustainable equity allocation of 15% of the Fund's assets (c.£274m) in its Future World Market Capitalisation Index Fund as set out in paragraph 2.8.
2. To fund the sustainable equity mandate by fully disinvesting assets from the LGIM UK passive equity mandate, with the remaining funds required being disinvested from the two active global equities mandates, as detailed in paragraphs 2.9 and 2.10.
3. Delegate authority to the Executive Director Corporate Services to implement the phased investment as detailed in paragraph 2.10.
4. Agreed in principle to fill the additional 5% allocation to Index Linked Gilts (ILGs) by increasing current investment in the LGIM Over 5 Year Index Linked Gilts fund, subject to yield trigger points being met as set out in paragraph 3.8.
5. To fund the increased investment in ILGs by disinvesting from the two active global equities mandates, as detailed in paragraph 3.9.
6. Delegate authority to the Executive Director Corporate Services to monitor market gilt yields, and in consultation with the Chair to invest when the trigger point is met.

It was noted that gilt yields had been below the proposed trigger point of RPI –1.5% and the investment had not been triggered. The position would now be included as part of the Investment Strategy Review process.

Although it was recognised that the Government had made it clear that they wanted Councils to pool their assets, there was some concern that that the more that was invested with the London CIV managers the less assets the Fund would have control over. It was noted that over 50% of the fund was now invested in LCIV managers. However, Councillor Madlani was Chair of the LCIV Shareholder Committee, so a lot of time and effort was invested in the LCIV. Board Members were reassured that although the Fund did not have direct control over all investments, the Fund did have some control over the process, for instance who they appointed, the types of managers, their styles, how they approached ESG and other issues aligned with the Fund's Investor Beliefs. All of these would be taken into account to ensure that appropriate managers were appointed. It was also noted that the Fund's Investment consultant always looked at both LCIV options and funds outside the CIV umbrella. The best option would always be taken for the Fund.

RESOLVED –

THAT the contents of the report be noted.

9. IMPROVEMENT AND DEVELOPMENT AGENCY SUBSTITUTION OF FUNDS AND BARINGS REDEMPTION REPORT

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

The Board noted an update on two key issues the Fund had to negotiate.

Firstly, the substitution of funds between this Fund and the Merseyside Pension Fund for an employer in the Fund – the Improvement and Development Agency (IDeA). The Secretary of State for MHCLG (Ministry for Housing, Communities and Local Government) had agreed to this transfer of c£190m and all assets and liabilities relating to IDeA would transfer to the Merseyside Pension Fund shortly. This substitution was reported to the Pension Committee as part of the Employer report in March 2020. The Committee agreed to delegate authority to the Executive Director Corporate Services, in consultation with the Chair of Pension Committee, to agree the final terms of the substitution of funds for the Improvement and Development Agency. However, since then progress had not been as quick as anticipated and so no final authority was sought. The IDeA had consulted their staff on the Substitution in June 2020, including discussion with union representatives, with no issues or queries raised.

The Fund's Investment Consultants, Isio, had done a piece of work on how to structure the assets to transfer and the shape of the fund post transfer to ensure the Fund was balanced and the remaining assets were appropriately structured to fit with the Fund's strategic asset allocation. The required amount to be transferred as part of the Substitution of Funds of £190m represents approximately 9% of the Fund's assets. Isio's report was attached at Appendix A, the main points of which were:

- The Fund was currently heavily overweight to equity having an actual 65% allocation compared to a strategic allocation of 50% and this presented a risk given the relatively high risk profile of equities and bouts of volatility that they can be subjected to
- Within that 50% equity allocation the overall Fund allocation to equity managers should be Baillie Gifford 12.5%, Harris 7.5%, L&G ESG focussed fund (future world) 15% and L&G global 15%.
- This meant Baillie Gifford (active equity) was overweight by 8%, Harris (active equity also) was overweight by 7.8% and taken together (Global and Future World allocations) the passive equity run by Legal and General was broadly balanced.
- Isio recommended funding the £190m wholly from the overweight to Baillie Gifford given their strong outperformance to date, outlook for their mandate and heavy overweight. Baillie Gifford currently had Fund assets of £432m.

The Harris overweight position would be dealt with in a separate report to Pension Committee.

The second key issue contained in the report related to the termination of the Barings Dynamic Asset allocation Fund and compulsory redemption. Barings wrote to all investors in April to notify them that they were closing their fund based on historic outflows and the fact that new investment was unlikely. Costs relating to termination had been borne by Barings. The Fund's holding with Barings was valued at £142m as the end of June. Isio had looked at this and Appendix A also set out proposals to deal with the cash redeemed from Barings.

It was noted that the strategic asset allocation to credit in the Fund was 12%. Currently the Insight and CQS allocations amount to 7%. Adding £80m from the Barings redemption proceeds would take the total invested in credit to 12% and would, therefore, rebalance this asset allocation. The remainder of the redemption proceeds would be retained as cash (c£58m) and this was dealt with further as part of the Asset Allocation Rebalancing report on this agenda (Item 10).

Officers and the independent advisor were supportive of the recommendations to fund the Substitution of Funds by reducing the overweight to Baillie Gifford by £190m and £80m of the redemption proceeds from Barings to bring the credit asset allocation back to strategic benchmark. They would like to see the latter happen once the LCIV had implemented its blended MAC sub-fund to ensure there was diversification. Merseyside Pension Fund had been consulted on the proposed course of action to fund the Substitution of Funds in specie and were happy for the entire amount to be reassigned in specie transfer. Merseyside would then restructure the holdings in their Fund.

The Pension Fund's Actuary, Hymans Robertson, had been consulted on the changes proposed in this report and the asset allocation rebalancing report and they had no immediate concerns with the proposed rebalanced strategy insofar as it impacts the funding target used by the Fund.

It was noted that the Pension Committee, on 28th July 2021, agreed that:

1. The IDeA proposed Substitution of Funds of £192m would be funded by an in specie transfer from the overweight in Baillie Gifford to the Merseyside Pension Fund.
2. The Fund would top up its allocation to Multi Asset Credit by investing a further £80m in the new CIV MAC fund once the blended product was available in September.
3. All matters relating to the above recommendations, including timing and the final agreement to the terms of the Substitution of Funds, would be delegated to the Executive Director Corporate Services, in consultation with the Chair of the Pension Committee.

It was noted that Camden's Fund had a large number of admitted bodies which were small employers. The IDeA was a large employer and now that it had transferred out of the of Fund it was suggested that 94% of the Fund would become Camden liabilities. Officers were asked if other local authority funds were similarly dominated by council liabilities. In response, it was noted that most local authority schemes had about 12 admitted bodies, most would probably be schools and a few small contractors. However, due to the location of Camden, the Fund had a number of charities which were located in Camden or London. This resulted in an unusually high number of around 30 employers. Concerns had been expressed about some of them in the past, and costs for running the scheme for the small employers was relatively high. However, they were very small in relation to the Fund's overall liabilities.

Officers were asked to provide an update regarding the IDeA transfer to Merseyside to the Pension Board's meeting in March 2022.

ACTION BY: Executive Director Corporate Services.

RESOLVED –

THAT the contents of the report be noted.

10. ASSET ALLOCATION REBALANCING REPORT

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

The Pension Board noted that this report followed on from the Improvement and Development Agency (IDeA) and Barings redemption report on the agenda at item 9, which discussed how to structure the assets for the £190m Substitution of Funds for the IDeA and the forced redemption of £142m of assets from Barings. That report made recommendations on funding the substitution of funds of c£192m (by reducing the overweight to Baillie Gifford) and allocating £80m of the Barings redemption to the Multi Asset Credit sub-fund the asset allocation. This would still be a significant overweight to equity (62% v 50%). Appendix A set out the work of the Fund's Investment Consultant, Isio, on rebalancing the asset allocation to better reflect the strategic review. The only other asset allocation that would be overweight post the IDeA and Barings events was Cash (+5% over).

Pension Board Members noted that Appendix B contained additional information on the Asset Allocation rebalancing review. This was a Part II appendix and was not for publication as it contained commercially sensitive information. Board Members confirmed that they had read the appendix and would take it into account when making the decision.

The Pension Board noted that the Pension Committee had agreed to:
1. Reduce the overweight to Harris by redeeming £171m of assets with them
2. Invest £95m in the CIV Diversified Growth Fund with Baillie Gifford
3. Invest £57m in the L&G index linked gilts fund
4. Delegate all matters in connection with the above to the Executive Director Corporate services in consultation with the Chair of the Pension Committee.

RESOLVED –

THAT the contents of the report be noted.

11. RISK REGISTER

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

The Pension Board 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.

Board Members also noted that 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

However, one risk, "18. Fraud risk" was judged to have increased, due to an increase in cyber crime. The security information officer was discussing security issues with the Pension Shared Service in terms of how they managed their data. The Shared Service had also carried out penetrating data requests to see if they had any glitches in their security. Some scheme members might receive spurious approaches from fraudulent companies to join other schemes outside LGP schemes. The Shared Service provided members with information to question it and encouraged them to take independent advice from a financial advisor, which was a requirement before a member was allowed to transfer their assets out of the scheme. The Shared Service also checked that information was properly encrypted and firewalls were in operation to ensure nothing jeopardised the operation of the fund and prevented them from operating the payroll.

Pension Board Members were invited to join the Hyman Robertson's (the Fund's Actuary) on-line learning academy. The training was presented in useful bite size sessions and followed Chartered Institute of Public Finance and Accountancy (CIPFA) and the Pension Regulator (TPR) requirements. Modules included the introduction to the LGPS, governance and oversight, administration and fund management, funding and actuarial matters, and investments and current events.

TO NOTE: All

In response to a question regarding the cases of McCloud and Goodwin, mentioned at Risk 26 on page 245, it was noted that this had been added by the Actuary. One case referred to judges and the other firefighters. Both cases alleged discrimination and forced the Department for Levelling Up, Housing and Communities to look at the scheme and introduce benefit criteria that were not age related or only impacted a certain proportion. They were looking at how to change the scheme's benefits so they cut across all members and not just a small section. It had only had a minor impact on LGP schemes. Scheme members would be given a choice to either stay in the old scheme or move to a new one and would be given a time period in which to do it.

Pension Board Members raised the following issues regarding economic impact:

- Risk 10 "Brexit", page 235, had been deleted as it related to geographical and currency. It was noted that the reason for this was that the Fund no longer invested in regional funds like the UK fund, they were now all global, with the exception of CBRE which was a UK property fund. It was preferred to mix risks and not just invest in one market. In addition, due to Brexit, the UK was now experiencing higher inflation. Also, shortages in the workforce were driving up costs which would then impact on the Fund's liabilities. Inflationary impacts would be considered as part of the Triennial Valuation.
- The Covid pandemic in terms of people's health and longevity and the long term economic impact it had had on certain sectors. It was noted that Pension Committee Members and officers had received some training from a Hymans Robertson's specialist on longevity. It was noted that initial findings had shown that it had not impacted on longevity, but had impacted on liabilities significantly. The Pension Committee would be considering a funding review at its November meeting which would look at this. Regarding assets, it had fundamentally changed the property market and how people invested in it and what they invest in. For instance, the retail market has been hugely impacted, commercial/offices had also been impacted but industrial not so much. Officers would be monitoring this closely with individual fund managers, in particular, with the two property managers. A third manager was also coming on board, Long Lease Property, which was a new fund which would take all these issues into consideration. It was noted that some businesses might be strengthened by the pandemic, for instance, vaccine companies and some digital companies, for example, Baillie Gifford who had invested in Google and had done well.

It was noted that the Pension Committee agreed the Risk Register as set out in Appendix 1.

RESOLVED –

THAT the contents of the report be noted.

12. PENSION BOARD UPDATE REPORT

Consideration was given to the 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 Pension Board must also ensure the effective and efficient governance and administration of the scheme. The Board noted the report which summarised the items presented to and decisions made at the Pension Committee meetings on 24 November 2020, 2 March 2021, 28 July 2021 and 23 September 2021.

Councillor Madlani, Chair of the Pension Committee, was in attendance at the meeting and highlighted some of the key areas of work undertaken by the Committee during that period.

- The Fund had been moved deeper into pooling as the strategy had developed
- It had concentrated on environmental, social and governance (ESG) opportunities which had been embedded across all the work of the Committee.
- Just before July 2020 a new investment strategy was agreed which set out roadmaps to change fund manager's mandates and to agree how the Fund should get to be closer to be fully funded to manage liabilities.
- The Fund had always had a strong role in engagement with the stocks and shares it held and using PIRC in its voting policy. The Committee took this as an annual item and he was pleased to report that this year the voting policy had been amended to make it one of the most comprehensive by including things, such as, ensuring there was sustainability and climate consideration at Board level and where it was not to ask Chairs to accelerate this happening.
- The Committee had also looked at more proactive approaches, along with its stable development goals, alignment into passive equities and how that would involve and move into the L&G Future World Fund which would improve both the ESG scores and risks.
- The Committee considered regular items on ESG and climate. Officers and Members met with Fund managers once a year to discuss their carbon footprints and what efforts they were making to improve them.
- A lot of work was done with the IDeA around redemption of funds. He commended officers for their work in dealing with this. The Committee took the opportunity to invest in the LCIV Baillie Gifford Aligned Sub fund which reduced the Fund's carbon exposure further and helped to reduce its carbon emissions on an ongoing basis enabling a 7% reduction in carbon impact year on year.
- In September the Committee took an item on risk registers which was a good piece of work by officers governing the risks to the pension scheme.

- The Committee looked at gender balance, climate action and decent working conditions when setting its SDGs. On gender balance, its priority was to see if they had women on their committees and that there were no large gender pay gaps. The first exercise was getting that data together and once the matrix was drawn up managers could be held to account. This was not popular with the fund managers, but the Committee's independent advisor had said that Camden was one of the few funds that did that in such a rigorous manner.
- With regard to overall performance, table 7 (page 272) showed that the fund was outperforming its target by 5% and had outperformed the target in 1, 2, 3 years, which was a testament of the equities rallying.
- Councillor Heather Johnson, Vice-Chair of the Pension Committee had been doing a lot of work with LAPFF and other Committee Members, especially Councillor Abdul Quadir, had also been involved. It had been a team effort and he thanked them or their work.

The Pension Board was pleased to note that the Fund had been shortlisted for the LAPFF awards in December for its approach to responsible investment and that Councillor Madlani had been shortlisted for a Rising Star award. Councillor Madlani had also been elected by Council leaders across London, to be the shareholder representative on the LCIV. This would hopefully enable some of the issues Camden's Fund was leading on to be taken across London. Pension Board Members congratulated the Chair, Committee Members and officers on these achievements and wished them success.

Councillor Olszewski reminded the Board that there had been concerns about poor performance of some fund managers in the past and asked if the Committee was now reassured on their performance. The Head of Treasury and Financial Services replied that, from an equity perspective, the Fund was de-risking from 65% weight to equities when its strategic allocation was 50, so it was bringing it back to where it should be. The volatility of markets during the last 2-3 years had demonstrated that this was the right thing to do, which would be further demonstrated during consideration of the other items on the agenda.

Officers looked at long term performance rather than quarterly performance and considered the different styles of investment. Broadly all managers were either where they were expected to be or in the process of turning things around.

Councillor Madlani added that the Committee took a performance report quarterly and Committee Members had regular meetings with the managers as well. Officers and the Independent Advisor also met with managers outside the Member meetings. If any concerns arose they could rearrange meetings and see those managers more frequently, as happened with Harris and CQS.

Councillor Olszewski welcomed the good work being done around climate and holdings in fossil views, but stressed that it was important not to lose sight of the fiduciary duty of Members. He asked whether the changes that were being made had any impact on the value of the Fund in the long term. The Head of Treasury and Financial Services replied that there had been two main changes. The Baillie Gifford

Paris Aligned Fund and the L&G Future World Fund. Isio, the Fund's Investment Consultants, had looked at different funds both within and outside the LCIV pool. Any changes had been looked at from a fiduciary point of view. The Investors Beliefs and investment principles were also considered which meant any changes had to meet the expected return for that asset class.

Councillor Madlani added that the Committee had taken a very thoughtful approach to this rather than just responding to campaigns. It was necessary to consider climate carbon impact across the portfolio as there was a need for the whole portfolio to decarbonise, but that had to be done methodically across every asset class and specifically where alternatives exist. The Committee had looked at equities and the SDG tilt on passives and the Baillie Gifford Paris aligned fund. The same would be done with Harris. It was important to be meticulous when doing this because it was not practical to focus just on fossil fuel exposure, for instance, cruise ships and cement had some of the highest carbon footprints.

It was noted that the performance report to Committee on 23 September 2021 was showing a 124% funding ratio which was not absolute, but against the investment fly path as it had been discounted back. The Fund needed to move at the same speed for the Actuary's assumption to be correct and liabilities to be covered in the medium to long term.

Councillor Olszewski thanked Councillor Madlani for attending the meeting.

RESOLVED –

THAT the contents of the report be noted.

13. ANY OTHER BUSINESS THAT THE CHAIR CONSIDERS URGENT

There was no urgent business.

The meeting ended at 6.30 pm.

CHAIR

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MINUTES END