

THE LONDON BOROUGH OF CAMDEN

At a meeting of the **PENSION COMMITTEE** held on **WEDNESDAY, 20TH SEPTEMBER, 2023** at 6.30 pm in Council Chamber, Town Hall, Judd Street, London WC1H 9JE

MEMBERS OF THE COMMITTEE PRESENT

Councillors Rishi Madlani (Chair), Heather Johnson (Vice-Chair), Anna Burrage, Sylvia McNamara, Jenny Mulholland and James Slater

MEMBERS OF THE COMMITTEE ABSENT

Councillors Matthew Kirk and Shiva Tiwari

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. APOLOGIES

Apologies for absence were received from Councillors Matthew Kirk and Shiva Tiwari.

2. DECLARATIONS BY MEMBERS OF STATUTORY DISCLOSABLE PECUNIARY INTERESTS, COMPULSORY REGISTERABLE NON-PECUNIARY INTERESTS AND VOLUNTARY REGISTERABLE NON-PECUNIARY INTERESTS IN MATTERS ON THIS AGENDA

There were none.

3. DEPUTATIONS (IF ANY)

There were none.

4. ANNOUNCEMENTS (IF ANY)

Broadcast of the meeting

The Chair announced that the meeting was being broadcast live to the internet and would be capable of repeated viewing and copies of the recording could be made

available to those that requested them. Those seated in the Chamber were deemed to be consenting to being recorded and images broadcast.

Anyone wishing to avoid appearing on the webcast should move to one of the galleries.

Congratulations

The Chair and Committee congratulated the Committee Clerk on becoming a grandfather.

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

There was none.

6. MINUTES

Resolved:

THAT the minutes of the meeting of the Pension Committee held on 24th July 2023 be approved and signed as a correct record.

7. PROPOSED CHANGES TO THE TERMS OF REFERENCE OF THE PENSION COMMITTEE

Consideration was given to the report of the Borough Solicitor.

The Head of Treasury and Financial Services introduced the report, reminding members that the proposed minor changes to the Committee's terms of reference had been discussed at previous meetings of the Committee.

The proposals were that in line with the commitment to environmental, social and governance (ESG) issues in the Council's Constitution all reports to Pension Committee now contained a section on ESG issues, entitled 'Responsible Investor comments' and that the Committee's terms of reference also be updated to include reference to its investment beliefs under the strategy as a guide to its approach to markets, asset allocation and investing in general.

The Committee was asked to agree these minor amendments to its terms of reference. If agreed this would then go to The Audit and Corporate Governance Committee for consideration and on to Council for approval.

The Chair reminded members that it was merely formalising what the Committee was already doing, suggesting that a hyperlink to investment beliefs also be included as this would highlight what they were.

The Committee agreed to the proposed amendments to the Terms of Reference and the inclusion of the hyperlink to investment beliefs.

Therefore, it was

RESOLVED –

THAT the Pension Committee ask the Audit and Corporate Governance Committee to recommend the following to Council:

- i) Recommend the Council to approve the proposed change to the Terms of Reference of Pension Committee as set out in paragraphs 2.1.5 and 2.1.6 of the report;
- ii) Recommend to Council that the Borough Solicitor be authorised to amend and give effect to the proposed change.

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 2023.

The Committee noted in particular that:

- Table 1 showed that most regional equity markets had a strong return this quarter, however over the year many markets suffered losses including the FTSE all world, Asian and emerging market equities.
- Index linked gilt properties and commodities all had negative returns this quarter, over the year the losses had been starker with UK properties market down 17% and commodities market down 24% coupled with rampant inflationary pressures.
- Table 2 showed the cash values and proportionate funds of all the Council mandates. The fund was now valued at £1.94bn which represented an increase of 0.95%.

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- The allocation showed a familiar pattern with no major changes over the quarter.
- Table 3 showed Asset Class Allocations compared to target weights with equity 7% over target weight and bonds 5% under the target weight which was again a familiar pattern. All other Asset Class Allocations were within target.
- Table 6 tracked the fund's performance against expected target rate and showed that the fund returns were still significantly above expectations.
- Comparing benchmarking in section 4 showed that the fund returned below the average this quarter 1.2% compared to 1.9% for the average fund. Over 12 months the fund underperformed 3.8% compared to 5.1% for the average fund but over 3 years the fund was closely aligned with the average fund 6.4% compared to 6.6%.
- Table 7 showed that the return of the whole fund in the quarter was 1.2% which underperformed the target of 1.8% by 0.6%.
- This quarter Harris underperformed Baillie Gifford, -2.8% compared to -0.9%
- All Legal & General equities had tracked their benchmarks in the quarter as expected and seen a small growth in value overall.
- The property mandates, CBRE, Partners Group and Aviva all suffered heavy underperformance this quarter partly due to the way they were valued. Over the year the fund underperformed its target by -6.4% which was attributable to both the Baillie Gifford mandates, equity was behind by 5.8% while the Diversified Growth Fund was off by 2.3%.
- The Multi Asset credit mandate run by both CQS and Pimco London CIV fund was behind target by -11.4% in the year and Aviva by -30.9%. In the 2-year period the fund was up +1.7%, over the longer period on an absolute basis it was up by 10.6% over 3 years and 8.7% since inception. The fund was significantly up when compared to the actuarial expectations.

Karen Shackleton, Independent Investment Advisor, informed the Committee of a change, that MG Hudson the advisory side of the business was now part of Apex Group which was a global services financial provider. This made no difference to the advice or service she would continue to provide. However, the contract with MG Hudson had now transferred across to Apex. She remarked that the company appeared to be very well governed which was reassuring given the issues that occurred with MG Hudson.

The Independent Advisor highlighted the salient points from the Performance Report as follows:

London CIV - Baillie Gifford fund was a global equity strategy which was aligned to the Paris agreement and were looking to decarbonise by 7% a year. She noted that in the quarter to June they delivered a return of 3.17% which was ahead of Harris. Comparing Baillie Gifford with Harris they had different styles, while Harris was a value manager, Baillie Gifford was a growth manager and would be expected to perform differently at different times. However over 12 months Baillie Gifford were still underperforming by 2.3%, remarking however that it was good to see Baillie

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Gifford outperforming Harris as there had been quite a period where they had been underperforming. It was also worth noting that they were underperforming over 3 years versus their performance target so there was still quite a long way to go.

Baillie Gifford attributed their positive performance in quarter 2 to the lift up in technology and new enthusiasm over Artificial Intelligence (AI). They had holdings in Amazon, Facebook and Microsoft with these 3 holdings contributing 1.8% in quarter 2.

Members were informed that in relation to the query raised at the last Committee meeting, regarding the percentage of the fund invested in Facebook Tesla Inc and Microsoft, as a percentage of the total fund, Harris and Baillie Gifford exposure to these companies and Legal and General was 2.4% of the whole fund invested in Microsoft and 0.8% in Tesla.

London CIV were of the view that Baillie Gifford could recoup the underperformance so they had been left on normal monitoring. The Independent Adviser informed members that the Portfolio manager had been robustly challenged on this, London CIV however had a fixed framework with which they monitored managers and were aware of the issues.

Although Baillie Gifford beat Harris in quarter 2, they still trailed the target performance. Members were informed that she continued to have quarterly meetings with Baillie Gifford and Tim Gooding (Baillie Gifford Fund Manager) had pointed out that this was due to omissions in holdings rather than the stocks actually held, specifically Nvidia and Apple which both performed very strongly in the quarter. She noted that an interesting insight was that the Fund's exposure to semi-conductors' buildings was off the back of anticipated growth in AI. Baillie Gifford had indicated that a third of their holdings were favourably disposed to AI, so there was a potential pick up going forward.

In terms of Carbon intensity, they were doing well with 55% of the intensity of MSCI All Country World Index which she noted was what was expected from a Paris Aligned strategy.

Harris – referring to chart 2 on page 52 it was noted that this showed the quarterly returns and how they had added value quarter on quarter. In the last quarter its stock selection detracted from the returns. She noted that as previously advised this was attributed to growth outperforming value, with the growth index return 10.13% in the quarter whereas value delivered 2.21%. As well as this Harris underperformed the value index by another 1.1% and the full market cap index by 2%. She advised that there had been issues this quarter but the longer-term track record had to be considered which was quite robust for Harris.

Legal & General – the Independent Advisor reported that they were the passive Global Fund Equity Manager as well as Guilt Manager and what was looked at was whether they were tracking their respective indices closely. This could be found in Table 2 page 53 of the agenda. She noted that there was higher tracking on the

Future World Fund, this was to be expected with a sustainable mandate. She reported that there were no issues and neither were there any concerns.

She pointed out that Solactive index which was what the Future World Global Equity Index Fund was measured against delivered a return of 3.7% whereas the full Market Cap Index delivered 3.36%, so sustainability added value during the quarter.

CBRE – was a portfolio of commercial property funds. Properties had a few challenging quarters which was shown in Chart 3 on page 54. Overall, it was slightly positive this quarter. The manager had indicated that positive rental growth was still being seen, with hybrid working and ESG compliance remaining as headwinds on office funds. Noting that exposure to the office sector might see muted returns.

Partners – This was a Global Property Manager investing in 3 different funds. that Camden Pension Fund was invested in. The 2009 Fund had a total of 61 investments which had nearly all been realised. There were only 3 funds left of which 2 were outperforming and above plan and only one of these was below plan.

The 2013 fund had 42 investments and half of those had been realised. There was a focus on the existing portfolio assets and trying to evaluate investment opportunities. 7 were outperforming, 3 were performing in line and 11 were below plan which the Independent Adviser noted was something to monitor.

The 2017 Fund was 60% drawn, 55% investments with 5 already being realised. Of the remaining funds 12 were outperforming, 25 were on plan and 13 were below plan. She advised that this fund was still very much in its value creation stage.

HarbourVest – This was a Global Private Equity Manager. This fund was now 84% drawn, money had already been distributed back to the investor which was equivalent to the amount of value put in, in the beginning. About half of the investments were above expectation, a quarter were meeting expectations with the remainder below expectations. For those below expectations more detail had been provided in the report.

London CIV - – The MAC fund (blended fund -CQS/Pimco) This she noted was a multi asset credit portfolio which was now blended across two managers CQS and Pimco. She had hoped to see a little bit better performance from this fund relative to target over 3 years. They were behind target by 2.4% some of which had been historic before the blending. They were not delivering negative returns it was just below the target. London CIV had reported that sub investment grade was a key detractor in quarter 2.

She also pointed out for information that London CIV was bringing forward a review of Pimco because the lead Manager of the fund had departed and wanted to ensure that the replacement manager was up to the job.

CQS had also been given an amber rating for business risk because of high levels of outflows, but overall, there was still normal levels of monitoring ongoing.

London CIV – Infrastructure Fund – Stepstone – These were investing in a range of Infrastructure portfolio Funds. There were 7 primary funds and one secondary fund. Members were informed that it was still early days for this fund, however the London CIV report on this fund had been fairly brief and it would be beneficial if a bit more information could be provided, this would be fed back to the Fund Manager.

London CIV – Real Estate Long Income Fund – Aviva – This was a property portfolio investing in long lease income type strategies which were very secure inflation linked income managed by Aviva. These were aligned to the liabilities which were inflation linked. As of December 2022, they were 100% deployed which was good as all the capital had been put to work. The Independent Advisor informed members that 98% of leases were inflation linked which was good and as of June 2023 the fund was underperforming.

She reported meeting with Aviva last week, they had indicated that the net asset value of the fund had been marked down because interest rates had gone up. They were of the view that it was a short-term blip with the value recovering over the longer term.

London CIV – Diversified Growth Fund – Baillie Gifford -This was a multi asset portfolio designed to diversify the equity risk in the total portfolio managed by Baillie Gifford. She reported meeting with the Fund Manager last week. Performance had been an issue for quite a while. London CIV had put them on enhanced monitoring with the next review being in December. London CIV were pleased with the progress Baillie Gifford were making in terms of some of their concerns but performance would still need to improve before the enhanced monitoring was stopped.

She informed members that they had reduced their exposure to growth equities and in the meeting had indicated that they were negative on growth as a factor which was a warning of what might be expected from the growth equity portfolio. However, they indicated that this was a long-term view versus a short-term view.

She also highlighted that based on the meeting with Baillie Gifford and in view of previous concerns raised by members she was of the view that they had a transformation story which was robust and should result in contributing returns in the future.

The following responses and comments were provided to Committee members questions:

- With regards to Baillie Gifford, London CIV were conducting the detailed monitoring and due diligence on Baillie Gifford. They had concerns about their processes, tools they were using to implement the strategy and the lack of risk management. Baillie Gifford had tightened this up which had given the London CIV more reassurance, encouraged by what they had seen since December 2022 and perhaps now members would start to see more returns coming through.

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- London CIV had also indicated that they would approach Baillie Gifford about fee discounts in light of the poor performance.
- From the Independent Advisor's perspective, it was about ensuring they tightened up the process and having a little bit more conviction about asset allocation in their views on asset classes.
- In light of the Prime Minister's announcement on delaying climate emergency measures, it was about not wanting to slow progress down on climate action. From the Pension Fund's perspective, it was important that it continued to do as much as it could to progress with measures to address the climate emergency. Noting, however that she understood the need for a just transition and the need to be able to respond to global warming without destroying the economy, impacting local communities negatively realising however that everybody needed to change.
- The chair was of the view that there was the need to keep the pressure on as asset owners to progress with measures to address the climate emergency and to show leadership in this respect.
- It was precisely to address climate emergency concerns that the Committee was a signatory to the net zero letter signed earlier this year. The Infrastructure Fund for example would perhaps benefit from this because of the energy security.
- The investment beliefs thesis was still valid along with the reasons behind this and the Committee felt there was the need to prioritise climate action in the portfolio as well as provide the best value for the Pension Fund. Whether there was government policy in favour or not if the Pension Fund did not act there would be much greater impact on the value of investments.

The Chair pointed out that the Committee continued to be primarily focused on the risks of climate and carbon exposure in the Pension Fund's portfolio and though it was right to consider the government's announcement the Fund did not want to be stuck with stranded assets.

Another member was of the view that the government announcement had not been helpful in that it had not provided much guidance on what should happen going forward.

The Chair informed that Committee that as a shareholder of London CIV he would take forward the comment about the MAC Fund CQS and the amber rating about the business risk due to high levels of outflow, noting the need to monitor this situation.

The Chair highlighted that there appeared to be inconsistencies with the Baillie Gifford comments on the Diversified Growth Fund and sought views from Committee members. The Vice Chair in agreement with the chair's comments was of the view that their reasoning was not very reassuring, they got the Committee's message about the concerns raised and there was a need to continue to monitor the performance.

The Independent Advisor informed the Committee that London CIV had indicated that they were looking at the sustainable fund but it did not have much of a track record and were looking at another provider, an alternative which was run on a more sustainable basis. She wondered whether London CIV could provide more information on this from their perspective.

RESOLVED –

THAT the contents of this report be noted.

9. ENGAGEMENT REPORT

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

The Head of Treasury and Financial Services informed the Committee that this was a regular report presented to Committee Members updating them on engagement activity undertaken by the Fund and on its behalf by LAPFF (the Local Authority Pension Fund Forum). This work was important to the Fund's ambition to be a fully engaged investor and demonstrated its commitment to Responsible Investment and engagement in Environmental, Social and Governance (ESG) issues as a way to achieve its objectives.

He also highlighted that:

- At the business meeting in July 2023, items discussed included Capital Markets listing regime of companies on the London Stock Exchange and the relaxing of standards, Climate Metrics and the links to Executive Pay.
- The report had a recommendation to note the pass-through voting policy that would apply to the Fund's voting policy to the passive equity allocation managed by Legal and General.
- The only Fund's the Pension Fund could exercise its voting policy on was with Harris as they were in segregated funds, while Legal and General and Baillie Gifford were in pooled funds. The Pension Fund did not own these assets rather it owned units in those funds.
- Split Voting was the practice of being able to vote different policies among different pool members.
- Legal and General had been working with Tumelo the fintech company to explore how it could apply the Pension Fund's policy intentions on its funds.
- The intention was to apply the Pension Fund's policy across its North American and European stocks.

Georgia Stewart Chief Executive Officer Tumelo was in attendance and provided the following information.

- Camden Pension Fund should be proud of what it had been able to achieve through its probing and questioning which had led the entire Fund Manager

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industry to take a critical look at themselves and consider what more they could do for clients like the Camden Pension Fund which wanted their voice to be heard.

- Legal and General had announced last Monday that it had put the technology in place that would allow Camden Pension Fund to have a voice on all issues including those it held really strong views on.
- Beyond Camden that would set the tone for more Fund Managers to have similar levels of influence that Camden had.
- Tumelo was a data company which did a lot of data crunching to work out if the Pension Fund owned the stocks directly rather than through a third party, how much the Pension Fund would be able to vote on companies such as Tesla or Vodafone. The vote would then be applied as recommended by PIRC (Pension Fund's policy provider) to the Pension Fund's portion of the stocks.
- As indicated the Pension Fund would then have its own voice through its vote recorded and considered at annual general board meetings.

The following responses and comments were provided to members questions:

- London CIV and LAPPF would be watching these developments concerning Camden Pension Fund's voting policy with great interest.
- It was good to see the technology that had been adapted to enable these developments.
- These developments applied to other organisations such as Universities regionally and nationally.
- There would always be detractors, however this was the right approach for Camden and was a chance to express the views of the Committee.
- There was also the possibility as it was sometimes hard for fund managers representing lots of different clients to be as progressive as some clients might want them to be.

The Chair suggested communicating the split voting information to London CIV funds and the LAPPF.

Another member suggested that this information should also be communicated to Camden residents as it was a good news story.

The Head of Treasury Management and Financial Services informed members of the next LAPPF Conference, taking place in Bournemouth from 6-8 December 2023, he encouraged those members that were able to attend the meeting. The Chair reiterated the officer's comments encouraging members to attend as there was lots of useful ideas and information gained at these conferences.

The Committee expressed its thanks to the Chair of the Committee, Head of Treasury and Financial Services, the Independent Adviser and the CEO of Tumelo for all their hard work in getting the split voting policy agreed and making it happen.

RESOLVED -

THAT the contents of the report be noted, including the pass-through voting that will apply the Fund's voting policy to the passive equity allocation managed by Legal and General (L&G) set out in section 3 of the report.

10. 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, onboarding 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).

It was noted that:

- The CIV held its general meeting on 18th July 2023 chaired by Councillor Madlani.
- As of 31 July 2023, the total assets deemed pooled by Client Funds stood at £28 billion, of which £13.8 billion were public markets (Authorised Contractual Scheme (ACS)) funds in Assets Under Management (AUM) managed by London CIV
- £12.9 billion in passive equity funds. £1.4 billion had been drawn in respect of Private Market funds, with a further £2.5 billion committed.
- The CIV were looking to launch 4 new funds including the Affordable Housing Fund which the Pension Fund was closely looking at.
- The CIV held its annual conference on 4th and 5th September 2023 which was well attended with representatives from Camden including Councillors Madlani and Burrage.
- The topics covered were wide ranging including the Taskforce on Nature related Financial Disclosures (TNFD) and discussions around disclosure of and compliance with nature related risks.
- Section 5 of the report referred to the Government's published consultation on pooling, which covered asset pooling, levelling up, opportunities in private equity, investment consultancy and investment definitions. The consultation was seeking views on proposals in 5 areas covered in the report, officers in consultation with the chair would draft a response and members were invited to provide officers with any thoughts on the consultation before it closed on 2nd October 2023.

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The Chair informed members that since the last London local elections there had been a number of new chairs elected which had formed a progressive group looking at Asset Class Allocations including nature-based solutions and the social Housing Fund. The feedback provided was that the sessions had been very useful and had created the potential for better investment opportunities.

The pooling aspect would be shared with the Committee before submission, if any member had time to read the proposals they were encouraged to do so and provide comments.

The Vice Chair mentioned that the LAPFF Executive meeting discussed the pooling consultation at its meeting earlier today, providing a response which was likely come out next Monday and then considered at the LAPFF Business meeting on 8th October. The Chair indicated that in conjunction with the Head of Treasury and Financial Services they would look at linking all the views and comments on the proposals.

The Chair informed members that Jason Fletcher CIO of the CIV would be moving on from this role. He would be on the recruitment panel for his replacement.

He was also looking to reform the shareholder Committee to get more involvement from Pension Fund Committee members so that there was a wider community of practice in the responsible involvement in the ESG. This was to give members more involvement in the CIV's work, any members that were interested should let him know.

ACTION: all to note

RESOLVED –

THAT the contents of the report were noted.

11. 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.

The Head of Treasury and Financial Services informed members that a number of items for the future work plan would come from the Investment Review Strategy such as, Affordable Housing and Infrastructure.

He reminded members that It was important that they prioritised training via the Hymans online portal. Informing members that other topics covered included Scheme governance, risk management, record keeping, annual benefit statements,

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reporting breaches, pensions dashboards, climate change, tPR codes of practice and enforcement, and equality and diversity.

A member provided feedback on the training commenting that the modules were very long taking about 5 hours to complete one module. He noted that there was a lot of information and detail on Governance and Management which was happy with, however there was less information on things such as Equity Performance and what the asset classes were as there was an assumption that this was known and wondered whether more training was available on this. Officers agreed to look into this feedback.

ACTION BY: Head of Treasury and Financial Services

RESOLVED –

THAT the contents of the report be noted.

12. ANY OTHER BUSINESS THAT THE CHAIR CONSIDERS URGENT

There was none.

The meeting ended at 7.42 pm.

CHAIR

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MINUTES END