LONDON BOROUGH OF CAMDEN	**WARDS: ALL**
REPORT TITLE: Pension Board Update Report	
REPORT OF: Executive Director Corporate Resources	
FOR SUBMISSION TO: Pension Board	**DATE:** 17 March 2020

SUMMARY OF REPORT:

The Pension Board has 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. This report summarises the items presented and decisions made at the Pension Committee meetings on 26 November 2019 and 3 March 2020.

Local Government Act 1972 – Access to Information
No documents were used in the preparation of this report which are required to be listed.

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RECOMMENDATION:

The Pension Board is asked to note the contents of this report.

Signed by

Director of Finance ………..…**Approved** …………….

Date **06.03.2020** …………….

1. **INTRODUCTION**

1.1. The Pensions Board has responsibility for assisting the Pension Committee (known as the 'Scheme Manager') to ensure the effective and efficient governance and administration of the scheme.

1.2. This report aims to summarise the reports and decisions made at the preceding Pension Committee meetings. Individual reports and the web pages on which they are published can be accessed through the links included in this report.

2. **PENSION COMMITTEE 26 NOVEMBER 2019**

Deputation

2.1. A deputation was received and noted from Divest Camden predominantly calling for the Fund to divest from the top 200 fossil fuel companies and that there should be no new investment in fossil fuels over the next five years. UNISON made a similar deputation request at the same meeting.

2.2. Reponses from Members included that the Council had taken climate change forward and had adopted an active approach through LAPFF. It was continuing to reduce investment in fossil fuels and 5% of the fund was being invested in infrastructure with a 25% minimum in renewable energy. The Fund has a fiduciary duty and it was important to reach full funding. A lot of work on environmental matters had already been conducted such as the Carbon Footprint report, the Investor Belief Statement, the Climate Change Funding Impact report and the standing item on Engagement.

Investor Belief Statement

2.3. The United Nations Principles for Responsible Investment describes Investor Belief Statements as setting direction for investment policy, investment practice and organisational culture. They define how asset owners, such as this Fund, will create investment value and help asset owners make practical decisions about their investment style. These Investor Belief Statements are becoming increasingly popular to link more comprehensive policy documents with overarching principles and a framework which is high-level and helps to succinctly guide the Committee.

2.4. There are some beliefs which the fund will hold that have a financial focus and others will be about responsible investment (Environmental, Social and Governance related or ESG for short). Following a workshop in October, members considered both sets of investor beliefs. Evidence now suggests that ESG integration can improve risk adjusted returns and some asset managers argue that it can drive outperformance in inefficient markets.

2.5. The Fund's Investor Belief Statement was presented to committee in November. Some of the **financial beliefs** agreed were that equal weight should be placed on both passive and active management, long-term investment is favoured over short-term and asset mix is important. When considering **responsible investment**, the committee agreed to adopt the UN's Sustainable Development Goals with, amongst other goals, the priorities being: climate action (SDG 13), decent work and economic growth (SDG 8) and gender equality (SDG 5). These beliefs will be communicated to the fund managers and advisors. The Fund expects investment managers to ensure that they select investments that help transition to the net-zero carbon economy and do not invest in stranded assets.

Engagement report

2.6. This report summarised the LAPFF Business Meeting. Topics and meetings held related to:

- Reliable accounts – the extent to which auditors are providing assurance for material climate risks; and the UK government's proposals for extended reporting with regards to the Modern Slavery Act
- Climate Action 100+ - a report was published on this and company commitments were highlighted, such as BHP Billiton targeting a goal of net-zero emissions by 2050 (including scope 3 emissions). Only 9% of the company commitments highlighted met the Paris agreement targets. Mining companies were the weakest sector at setting targets and oil and gas companies have still not shown how they can achieve net zero emissions.
- LAPFF set out that engagement priorities with companies are: science-based climate targets and the implementation of Task Force on Climate-related Financial Disclosures (TCFD).
- Technology and governance risks – LAPFF will produce a further report on governance structures and practices to safeguard against cyber security and disruptive technologies.
- A voting alert calling for BHP to withdraw from industry bodies (like the Minerals Council of Australia) who have been shown to undermine publicly stated climate change goals .

2.7. There were 2503 resolution votes cast in the quarter, at 172 meetings. 72.9% of votes cast were for the resolutions and 26.8% against. The majority of meetings attended were in the UK & British Overseas with a total of 2,312 votes cast at these meetings. The notable categories of voting that recorded the greatest opposition as a percentage of overall votes cast were: election/re-election of directors (36%), share issues/ repurchases (24%), annual reports (21%), and auditor reappointment (8%).

2.8. Tessa Younger from PIRC (on behalf of LAPFF) was present at the meeting and summarised the main points in the report in respect of the work undertaken during the last quarter. She said that the strongest action aimed at making change was via voting alerts, attending AGMs and speaking to Board members.

Carbon Footprint Report

2.9. Camden declared a climate crisis earlier in the year and over the summer the first UK Citizens' Assembly on the climate crisis took place in Camden. The key points extracted from the report are outlined below.

2.10. The Pension Fund included a specific risk in its risk register, risk 53, that "Fossil Fuel linked investments suffer losses due to stranded assets and reputational damage". The mitigations of this risk and actions are that the Fund will continue to work with LAPFF to engage on this issue, direct engagement with Fund managers on their portfolios, continued use of our voting policy to reinforce our policies and finally to carbon footprint the Fund's investments to better understand our exposure and measure progress.

2.11. The Fund believes that 'robust' engagement with companies is a better approach than placing restrictions on particular types of investment. It also believes that companies conforming to high ethical and social standards will produce shareholder returns that are at least comparable to those produced by other companies.

2.12. When engaging, LAPFF encourages companies to align their business models with a 2°C scenario to push for an orderly transition to a low-carbon economy. For some oil and gas companies, a focus has been on value at risk, particularly from high-cost projects and support has been given to returning capital to investors where appropriate.

2.13. LAPFF is a member of the Ceres Investor Network on Climate Risk and Sustainability, is a participant in the Climate Action 100+ initiative and is in partnership with the Climate Majority Project. LAPFF recognises the issue of stranded assets and continued fossil fuel extraction as a collective investment risk for all asset owners and as an engagement and policy priority.

2.14. The Pension Fund is bound by law in respect of Socially Responsible Investment (SRI) policy. The Fund should, in all circumstances, act in the best financial interests of the members of the Fund. Where this primary consideration is not prejudiced, Investment Managers are expected to have active regard to the impact that SRI issues might have on the returns of companies in which they invest on the Fund's behalf.

2.15. The Transition Pathway Initiative assesses how companies are preparing for the transition to a low-carbon economy. It was established in 2017 and is led by asset owners and supported by asset managers.

2.16. The first step is to evaluate the quality of companies' management of their carbon emissions and the risks and opportunities related to the low-carbon transition, in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). It then assesses how companies' planned or expected future carbon performance compares with international targets and national pledges made as part of the 2015 Paris Agreement on climate change.

2.17. The TPI has initially looked at 274 companies within 14 high-impact sectors. Two of our fund managers, Aberdeen Standard Investments and Legal & General, are closely aligned to the Transition Pathway Initiative and enable research behind reports by acting as Research Funding Partners. One company in which we are invested via Baillie Gifford, BHP Billiton, in the oil and gas sector, is in a list of 4* companies which satisfy all TPI management quality criteria.

2.18. A recent TPI report on the state of transitions showed that 30% of companies assessed are, or will be, aligned with the Paris pledges benchmark in 2030. However, the report demonstrates that there are wide differences within sectors in how companies are responding to the climate emergency. Other key findings were:

- **46%** of companies are not adequately integrating climate change into their business decisions
- **25%** of companies do not disclose their own carbon emissions

- **84%** of companies do not disclose an internal carbon price; and **86%** are yet to undertake and disclose climate scenario planning – a critical part of TCFD reporting
- **Only 16%** of companies assessed for their current and planned GHG emissions are aligned with the 2°C benchmark**.**
- **Only 12.5%** of companies assessed for their current and planned GHG emissions are aligned with the most ambitious below 2°C benchmark.

2.19. Carbon footprints are measured with reference to 3 scopes: scope 1 (direct greenhouse gases), scope 2 (indirect greenhouse gases), scope 3 (indirect emissions not directly owned or controlled by the organisation). Fewer than 40% companies in the MSCI All Country World Index actually report their carbon footprints, which are not audited or reviewed by third parties.

2.20. Equity manager **Bailie Gifford** had a carbon footprint that was 37% lower than the benchmark ("yourSRI" benchmark) but **Harris** were 34% above the same benchmark, caused mostly by stocks Glencore and Larfarge. Harris had engaged with these companies and Glencore agreed to a coal production cap and LaFarge were looking to use additives to reduce their energy input.

2.21. The remaining equity manger, **Legal and General**, provided limited carbon footprint data but as they track the MSCI index. They were likely to be on benchmark given the tracking nature of their mandate. L&G introduced their Climate impact pledge two years ago in order to use their rights as major shareholders to put pressure on companies to accelerate their transition to a low-carbon economy.

2.22. Many of the non-equity managers have taken steps to report their footprints but there is still some way to go before all assets in the portfolio can be footprinted.

Climate Change Funding Impacts

2.23. This report is considered in full

2.24. The Committee 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.

2.25. The Committee found it helpful to look at climate change in the context of investment strategy and would ask that KPMG, the Fund's investment advisor, to look at the results.

Performance report

2.26. This report presented the performance of the Pension Fund up to 30 September 2019. The fund's overall return that quarter was positive, at 1.9% but below target of 2.5%. Overall, the pension fund continued to outperform the long-term target set at the triennial valuation in 2016 by 8.5%.

2.27. Global equity markets in Q3 were mixed, with developed markets enjoying modest growth but emerging markets experienced a slight fall in stock prices. The US-China trade war hit confidence, which triggered the Federal Reserve Bank to lower interest rates by 0.25%. Uncertainty over Brexit hampered the growth in UK equities. Despite weak economic data coming out of European markets, they generally outperformed global indices, perhaps encouraged by the European Central Bank taking further measures to boost economic activity.

2.28. Worsening economic data in general and ongoing trade tensions caused global government bond markets to perform strongly. UK (Consumer Price Index) inflation was the lowest since January 2017, falling to 1.7% in September 2019.

TABLE 7: MANAGERS' PERFORMANCE

Name	Trailing 3 Months	Trailing 1 Year	Trailing 2 Years	Trailing 3 Years	Since Inception
Harris	2.8	2.1	1.5	10.4	10.5
Custom Global Equities (Gross) + 2.5%	4.0	10.6	13.4	15.1	16.8
Excess Return	-1.3	-8.5	-12.0	-4.7	-6.3
Baillie Gifford (London CIV)	0.7	4.9	9.5	13.3	12.9
Custom Global Equities (Gross) +2.5%	4.0	10.6	-	-	13.4
Excess Return	-3.4	-5.7	-	-	-0.5
L&G UK Equity	1.3	2.8	4.4	7.0	11.2
FTSE All Share + 0%	1.3	2.7	4.3	6.8	11.0
Excess Return	-0.0	0.1	0.1	0.2	0.2
L&G Global Equity	3.5	7.8	10.6	12.2	13.7
FTSE All-World + 0%	3.5	7.8	10.6	12.2	13.7
Excess Return	-0.0	-0.0	0.0	0.0	0.0
Insight Investment	-0.5	-2.7	-3.1	-1.4	0.3
3 month LIBOR + 4%	1.2	4.9	4.8	4.6	4.5
Excess Return	-1.6	-7.5	-7.8	-6.0	-4.2
L&G Passive ILG	8.7	20.3	10.5	5.4	10.0
FTSE Over 5yr Index Linked Gilts + 0%	8.6	19.7	9.9	4.8	9.8
Excess Return	0.1	0.6	0.6	0.6	0.2
CBRE	-0.4	3.3	6.0	6.7	8.3
All Balanced Property Funds + 1%	0.6	3.2	6.5	7.8	8.7
Excess Return	-1.1	0.0	-0.6	-1.1	-0.4
Partners Group 2009 Euro Fund	3.4	1.7	4.2	3.8	9.4
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	-0.2	-13.3	-10.8	-11.2	-5.6
Partners Group 2013 USD Fund	3.8	10.1	11.1	15.6	18.7
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	0.3	-4.9	-3.9	0.6	3.7
Partners Group 2017 USD Fund	4.3	21.1			7.0
Absolute 15%	3.6	15.0			6.3
Excess Return	0.7	6.1	-	-	0.7
HarbourVest	6.9	23.0	21.6	27.9	26.4
Absolute 8%	1.9	8.0	8.0	8.0	7.8
Excess Return	4.9	15.0	13.6	19.9	18.6

Barings	1.6	2.7	2.7	4.1	4.3
3 month LIBOR + 4%	1.2	4.9	4.8	4.6	4.6
Excess Return	0.4	-2.2	-2.1	-0.5	-0.2
Ruffer (London CIV)	2.9	1.7	-	-	2.3
3 month LIBOR + 3%	0.9	3.8	-	-	3.8
Excess Return	2.0	-2.1	-	-	-1.5
Standard Life	1.3	4.3	1.1	1.4	1.2
6 month LIBOR+5%	1.4	6.0	5.9	5.7	5.7
Excess Return	-0.1	-1.7	-4.8	-4.3	-4.5
Total Fund	**1.9**	**4.8**	**5.9**	**8.1**	**10.0**
Total Fund Composite Target	**2.5**	**7.3**	**8.3**	**9.3**	**11.9**
Excess Return	**-0.5**	**-2.5**	**-2.5**	**-1.2**	**-1.9**

2.29. **Harris** generated an absolute return of 2.8% in Q3 (2019) underperforming target by 1.3%. Stocks that were detractors were Daimler who issued two profit warnings in 2019 and Glencore. Harris continued to significantly underperform target in the 2 year period with negative relative returns to target of 12.0%. This impacted the manager's long term performance trailing target by 6.3% since inception.

2.30. Despite having the Investment management meeting with Harris in November and listening to their presentation on Carbon Footprint, Committee Members still had some concerns over their performance and gender diversity. It had been agreed that quarterly meetings would be held with Harris to discuss these issues.

2.31. **Baillie Gifford (London Collective Investment Vehicle)** in Q3 (2019) produced a below target return of 0.7% resulting in a relative underperformance to target of 3.4%. Stocks that were hit by the US-China trade war were AIA and Prudential. The manager was slightly behind target by 0.5% since inception.

2.32. **Insight** delivered another negative return of 0.5% in Q3 which equated to a 1.6% underperformance relative to target. Over the year, the manager underperformed against its cash plus 4% target by 7.5% and by 4.2% since inception (2014). The manager's continued underperformance underscores the Committee's decision terminate Insight and transition assets away from this manager to the London CIV CQS multi asset credit Fund. The process of transitioning assets between the two managers has been put on hold following the LCIV putting CQS on watch.

2.33. **CBRE** had an absolute negative return of 0.4% underperforming target by 1.1%. The Nuveen shopping centre and Retail warehouse funds suffered significant negative performances of 4.6%and 7.2%. This manager matches target for the year, but slightly behind target by 0.4% since inception.

2.34. The **Partners Group** funds' performance in Q3 (2019) were considered individually.

i. The 2009 Euro fund was up 3.4% over the quarter resulting in a slight underperformance of 0.2% below the quarterly target for the investment and trails by -5.6% against target since inception.

ii. The 2013 US fund returned a positive absolute return of 3.8% in the quarter resulting in the fund outperforming by 0.3% against a target of 3.6% - the fund was ahead of target by 3.7% since inception.

iii. The 2017 US fund achieved a positive absolute return of 4.3% in the quarter, outperforming target by 0.7% - the manager was ahead of target by 0.7% since inception.

2.35. **HarbourVest** had another strong quarter outperforming target by 4.9% by delivering returns of 6.9% against target of 1.9%. The private equity manager had outperformed target on all other time horizons; over a one year time horizon by 15%, 19.9% over 3 years and by 18.6% since inception.

2.36. **Barings** – had a strong quarter with positive absolute return of 1.6% which was 0.4% ahead of target. Equities in the Fund had dropped from 46% last September (2018) to 39% at the end of that quarter. High yield fixed income had performed well (half of the overall contribution to return) and had increased from 15% last September to 23% now. The manager was trailing target by 2.2% for the year, but only slightly lagging target (by 0.2%) since inception.

2.37. **Ruffer**, had a good quarter, delivering positive absolute return of 2.9% outperforming target by 2%. The manager lagged target in the one year period by 2.1%.

2.38. **Standard Life**, delivered a positive absolute return of 1.3% in Q3 (2019) against a target of +1.4% underperforming target by 0.1%. The manager trailed its target over all other time horizons at present and is behind since inception by 4.5%.

2.39. **CQS** returned absolute return of 0.60% performance against target in Q3 2019. The London CIV continues to put CQS on watch due to concerns around key staff changes, underperformance and investment strategy. When the manager was put on watch in August 2019, the Fund's independent consultant investigated these issues by speaking to London CIV to better understand their concerns and subsequently to CQS. Whilst change in leadership is generally concerning, the remainder of the concerns by LCIV were deemed technical interpretation of Regulation/misunderstanding around investment process. Given the CIV's concerns the planned quarterly transition from Insight to CQS has been put on hold.

<u>LCIV Progress Report</u>

2.40. The value of the London CIV's assets directly invested stood at £9bn (see Table 1 below) as at September 2019. The CIV also oversaw £10.6bn in passive assets. The CIV was then running at 51% (£19.4bn) of London's assets under management. The London CIV aims to achieve a pooling level of 70% by 31 March 2023 with the pooled passive amount to remain largely unchanged during this period, and forecast net savings of £60.4m by this date

2.41. Progress is below target with the rate of growth of AUM declining. Net inflows have been slow and the 2019/20 new business forecast range is £200m to £1.5bn, below the target of £2.5bn. Fund launches were delayed in 2019 and some were launched with little or no investment.

2.42. Property and Private Equity were asset classes still not available and proposals on a low carbon fund were under development

2.43. It was agreed that the planned quarterly transition from Insight to CQS continue to be put on hold pending scrutiny and to enable the London CIV to continue to monitor and meet with CQS.

Business Plan

2.44. This report updated the Committee on future business items and training attended and opportunities

3. PENSION COMMITTEE 3 MARCH 2019

3.1. **PIRC Corporate Governance Annual Review 2019**

3.2. The Camden Pension Fund employs a corporate governance advisor (PIRC) to review company voting resolutions and execute the proxy votes of the Fund in accordance with its policy. This report reviewed and analysed the voting that has been undertaken by the Fund during the calendar year, as executed by PIRC.

3.3. During 2019, the Fund voted on 11,099 resolutions at 767 meetings. AGMs formed 82.1% of these votes. and 91.8% of the meetings were in the UK. Oerall the Fund supported 72% of the resolutions it voted on. The Fund supported 76% of all Directors who sought election. In the UK, in the case of remuneration reports, the Fund supported 42% of these. In the case of remuneration policies, the Fund opposed 70%. The Fund opposed 62.8% of the resolutions in the UK concerning the appointment of an auditor.

PIRC's Camden Voting Guidelines 2020

3.4. The policy was last reviewed in March 2019 to take account of changes in the shareholder voting environment, and notably PIRC's revised remuneration scoring. As with the previous year, the 2020 voting policy also fully incorporates the Local Authority Pension Fund Forum (LAPFF) voting guidelines, which the Fund is an active member of.

3.5. Some of the main changes to the 2020 voting policy template are to:

- Oppose when no or inadequate policy regarding Climate Change, including targets in line with Paris Agreement; no or inadequate reporting on climate in general
- Oppose the Remuneration Committee Chair where serious concerns are identified with the remuneration policy or report. This will include at least one E, or two Ds in the rating for either the Remuneration Policy or the Report
- Opposition to share buybacks will be recommended unless the board has made out a clear, cogent and compelling case demonstrating both how the authority would benefit long- term shareowners (for example by actually reducing discount), and also that the directors are not conflicted in recommending the authority
- Oppose Companies in the FTSE100 with excessive misalignment between actual and reported ratios between tangible and intangible assets

3.6. Appendix C of this report also links the UN SDG goals to ESG considerations when PIRC evaluate companies.

Performance Report

3.7. The portfolio had a market value of £1.822bn at 31 December 2019, compared with £1.786bn at 30 September 2019. The Fund returned 16.8% in the year (Table 7 below) ahead of the universe return and 2.3% for the quarter which again outperformed the PIRC universe which averaged 13.2% in 2019 and 0.5% for Q4.

3.8. The performance of global equity markets in Q4 was better than expected. Emerging markets and the UK were the best performing regions in that quarter and on an annual basis, North America performed best amongst the developed markets, as US stocks enjoyed their best year for six years.

3.9. Promises of a "phase 1" trade deal between the USA and China, helping to reduce and prevent tariff rises, along with reasonable US GDP growth in Q1-Q3 2019, helped to inflate US stocks but caused bond prices to fall. In October, slowing global growth and weak inflation prompted the Federal Reserve Bank to cut interest rates for the third time in three months, which also fuelled stock market gains there.

3.10. Growth in UK equities performed worse than European equities in Q4 (when measured in local currency) owing largely to the political uncertainty that weighed heavily on the nation throughout most of the period. Sterling Index Linked Gilts fell the most over the quarter as "No Deal" scenarios over Brexit were taken off the table, for at least a year. GDP was forecast to be only 0.1% in Q4, which would make 2019 the worst performing year since the financial crisis.

3.11. The European Central Bank cut rates to -0.5% and announced a revival of quantitative easing in response to poor Eurozone growth

3.12. The LCIV Infrastructure Fund launched this quarter and had its first call of £159k. Infrastructure will make up to 5% of the Fund eventually.

3.13. The performance of the Fund is summarised below:

TABLE 8: MANAGERS' PERFORMANCE

Name	Trailing 3 Months	Trailing 1 Year	Trailing 2 Years	Trailing 3 Years	Since Inception
Harris	3.7	24.2	2.5	7.1	10.8
Custom Global Equities (Gross) + 2.5%	2.1	25.4	11.5	13.2	15.1
Excess Return	1.6	-1.2	-9.0	-6.2	-4.3
Baillie Gifford (London CIV)	4.9	27.8	-	-	10.0
Custom Global Equities (Gross) +2.5%	2.1	25.4	-	-	12.7
Excess Return	2.8	2.3	-	-	-2.7
L&G UK Equity	4.1	19.2	3.9	7.0	11.4
FTSE All Share + 0%	4.2	19.2	3.9	6.9	11.2
Excess Return	-0.0	0.0	0.0	0.2	0.2
L&G Global Equity	1.5	22.3	8.7	10.4	13.5

FTSE All-World + 0%	1.5	22.3	8.7	10.4	13.4
Excess Return	-0.0	0.0	0.0	-0.0	0.0
Insight Investment	4.1	2.7	-1.6	-0.7	0.9
3 month LIBOR + 4%	1.2	4.8	4.8	4.6	4.5
Excess Return	2.9	-2.1	-6.4	-5.4	-3.6
CQS (LCIV)	1.3	-	-	-	2.5
3 Month GBP Libor +4.5%	1.3	-	-	-	-
Excess Return	0.0	-	-	-	-
L&G Passive ILG	-9.4	6.8	3.2	3.0	8.8
FTSE Over 5yr Index Linked Gilts + 0%	-9.5	6.3	2.7	2.4	8.5
Excess Return	0.1	0.5	0.5	0.5	0.2
CBRE	-0.1	1.7	4.9	6.2	8.0
All Balanced Property Funds + 1%	0.2	2.3	4.9	7.0	8.5
Excess Return	-0.4	-0.7	-0.1	-0.8	-0.4
Partners Group 2009 Euro Fund	2.1	-3.5	-0.3	2.3	8.5
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	-1.4	-18.5	-15.3	-12.7	-6.5
Partners Group 2013 USD Fund	-4.4	1.6	9.8	8.1	16.8
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	-7.9	-13.4	-5.2	-6.9	1.8
Partners Group 2017 USD Fund	-4.9	9.0			5.6
Absolute 15%	3.6	15.0			15.0
Excess Return	-8.4	-6.0	-	-	-9.4
HarbourVest	4.0	21.6	17.9	18.8	25.7
Absolute 8%	1.9	8.0	8.0	8.0	7.8
Excess Return	2.0	13.6	9.9	10.8	17.9
Barings	1.5	12.1	2.4	4.8	4.4
3 month LIBOR + 4%	1.2	4.8	4.8	4.6	4.6
Excess Return	0.3	7.3	-2.3	0.2	-0.2
Ruffer (London CIV)	1.0	8.6	-	-	2.5
3 month LIBOR + 3%	0.9	3.8	-	-	3.8
Excess Return	0.1	4.8	-	-	-1.3
Standard Life	0.7	7.2	0.5	1.2	1.3
6 month LIBOR+5%	1.4	5.9	5.9	5.8	5.7
Excess Return	-0.8	1.2	-5.4	-4.6	-4.5
Total Fund	**2.3**	**16.8**	**5.3**	**7.5**	**10.0**
Total Fund Composite Target	**2.0**	**15.1**	**7.4**	**8.6**	**11.8**
Excess Return	**0.3**	**1.7**	**-2.1**	**-1.1**	**-1.8**

2.26. **Harris** generated an absolute return of 3.7% in Q4 (2019) outperforming target by 1.6%. Harris continued to significantly underperform target in the 2 year period with negative relative returns to target of 9.0%. This impacted the manager's long term performance trailing target by 4.3% since inception, although this is an improvement from last quarter when it was trailing by 6.3%. When viewed against other value managers, Harris is in the top quartile over the three-year period to Q1 2019, have ranked highly in applications to manage LCIV funds, and are fund managers to the Brunel Pension Partnership and the Border to Coast LGPS. This gives some reassurance in their capabilities. The independent investment advisor and Head of Treasury and Financial Services met with Harris in January where they discussed their good Q4 performance and previous good year to date. They admitted 2018 had been a poor year mainly due to the rotation in markets in Q4 of that year. They explained that they still had conviction in the stocks in their portfolios and the underlying strong cash flows of these businesses.

2.27. **Baillie Gifford (London Collective Investment Vehicle)** produced a return of 4.9% this quarter resulting in a relative out performance of target by 2.8%. The manager is behind target by 2.7% since inception. It is worth noting that Baillie Gifford, like Harris, is also overweight in financials (Prudential, Moody's, Mastercard, AIA). It has a lot of exposure to US stocks. The Independent investment adviser and officers met Baillie Gifford in February and they discussed how a wide range of ideas had contributed to their success. They still back their growth style and think that disruptor firms will continue to succeed which suits their style.

2.28. **Insight** delivered better quarterly results than last time, with returns at 4.1% compared to a target of 1.2%. However, they are still 3.6% behind target since inception (2014). The manager's overall underperformance again underscores the Committee's decision to terminate Insight and transition assets away from this manager to the London CIV CQS multi asset credit Fund. The process of transitioning assets between the two managers has been put on hold following the LCIV putting CQS on watch.

2.29. **CBRE** have produced slightly below target across all periods measured. This last quarter, they were 0.4% below target, with absolute performance of -0.1%, and are 0.4% below target since inception. The UK commercial property market returns have slowed on an annual basis, returning 2.3% in the year to November 2019, a fall compared to recent years, with the retail sector particularly badly hit with the worst still to come. Furthermore, property transactions have been very low and this will have skewed the benchmark. CBRE are hopeful for the future, seeing income growth and the industrial sector as being the areas to deliver better future portfolio returns.

2.30. The **Partners Group** funds' performance in Q4 (2019) were considered individually.

iv. The 2009 Euro fund was up 2.1% over the quarter, resulting in an underperformance of 1.4% below the quarterly target for the investment, and trails by -6.5% against target since inception. This fund is in its realisation phase and is near fully committed and so is unlikely to meet its overall target. That quarter, the strengthening pound against the euro hampered returns of euro denominated assets when converted into sterling (and the same is true with dollar denominated assets). The fund has now distributed 120% of committed capital. There are 28 investments left in the fund and there was strong exit activity that quarter.

v. The 2013 US fund returned a negative absolute return of 4.4% in the quarter resulting in the fund underperforming by 7.9% against a target of 3.6% - however the fund was ahead of target by 1.8% since inception. This fund is still in its value creation phase with a portfolio of 30 active investments. The Fund is 85% invested.

vi. The 2017 US fund also achieved a negative absolute return of 4.9% in the quarter, underperforming target by 7.9% - the fund is still relatively young however and is only 45% committed. The fund is still in its value creation phase with 36 active portfolio investments. During the quarter the fund made 5 new commitments (4 in the US and 1 in Asia-Pacific). The Fund is 83% invested.

2.31. **HarbourVest** had yet another strong quarter outperforming target by 2% by delivering returns of 4% against target of 2%. The private equity manager has outperformed target on all other time horizons: over a one year time horizon by 13.6%, 10.8% over 3 years and by 17.9% since inception. The fund is now 63% called with a net multiple of 1.32 x and an Internal Rate of Return (IRR) of 24.2%.

2.32. **Barings** – performed slightly above target for the quarter at 1.5%, above the target of 1.2%. They were 0.2% below target since inception but have had a very good year, showing 12.1% returns against a 4.8% target. The strong growth in equities across the globe has aided their position and they have roughly doubled their UK equity allocation in Q4, in the belief that the UK has become “too cheap”. Barings increased their overall equity exposure during the quarter by 7% of the fund’s value.

2.33. **Ruffer**, outperformed target by 0.1% over the quarter and despite a good year (4.81% above target) they were still 1.3% below target since inception. Ruffer acknowledge a difficult 2018 but are happier with their performance in 2019.

2.34. **Standard Life**, delivered a positive absolute return of 0.7% in Q4 (2019) against a target of +1.4% underperforming target by 0.8%. The manager trails its target over all other time horizons (apart from the last year) at present and was behind since inception by 4.5%. Looking forward, they have tilted their portfolio towards higher risk/ higher return assets in the belief that downside risks to global economic growth have faded for the time being.

3.14. **CQS** returned absolute return of 1.3% performance that matched against target in Q4 2019. High yield and US loans contributed most significantly to returns this quarter and they are seeing investors seek higher quality credit and for longer durations, which they look to take advantage of looking forward. The London CIV continues to have CQS on watch due to concerns around key staff changes, underperformance and investment strategy.

<u>LCIV Progress Report</u>

3.15. Their assets under management (AUM) growth had been less than projected. For instance, six LLAs have still to commit any funds to the LCIV platform. The late launch of funds and the lack of fund range, particularly in relation to passive funds, were also cited as factors behind the flat growth of AUM. By March 2020, 52% of total London LGPS assets (active £8.1bn and passive £11bn) is forecast to be on the CIV platform: almost unchanged from last year and short of the £2.6bn growth forecast in AUM. This has prompted the CIV to increase fees by £20k per London Local Authority (LLA) from £90k to £110k. The London CIV aims to achieve a pooling level close to 70% by 31 March 2023. The CIV expects to hit most objectives in its MTFS apart from the funds under management target.

3.16. The CIV is on track to make a £525k adjusted loss this year and will not make a profit until 2024, they forecast. Their projected cash flow balances still seem stable and large however. One key sensitivity is if the appetite for passive funds increases over active funds: every £1bn of assets switched to passives is a fee reduction of £200k per annum for the CIV.

3.17. The "ESG stocktake report" – commissioned by Dawn Turner previously from Brunel Pensions Partnership – was completed. It concluded positively on the LCIV's engagement on ESG matters.

Funding Strategy Statement

3.18. The FSS governs how employer liabilities are measured, the pace at which these liabilities are funded, and how employers, or pools of employers, pay for their own liabilities. It must be reviewed and issued for consultation during each triennial valuation.

3.19. The only major changes are revisions for the McCloud judgement, an age discrimination court case that stemmed from when the government reformed public sector pensions in 2015, but offered "transitional protection" to some members of the judges' and firefighters' schemes. As a result, the LGPS benefit structure is currently under review, which may mean the benefit structure needs to change, and revisions to update for trapped surpluses. These occurred where employers had paid contributions over the life of their contract that were more than required to fund liabilities at cessation i.e. a surplus of contributions. Previously any credit amounts could not be paid back to employers. The Government has now introduced new regulations allowing Funds to pay back surplus money.

3.20. The draft FSS was circulated to employers in the Fund for consultation from 4 to 28 February. No comments were received back in response

Employer Register

3.21. This report contains key data about each employer including the admission body's status, admission agreements and bonds, as the Fund has sought to address the risks that a failing admitted body would pose.

3.22. The main point to note is that IDeA (the Improvement and Development Agency) has indicated that it will be transferring out of the Fund in 2020-21 to Merseyside's Fund. They will have to apply to the Secretary of State for a direction to substitute Merseyside Pension Fund for Camden Pension Fund in respect of the pension obligation for their employees. There are many things to do before this transfer can take place: all parties including our actuary, Merseyside's actuary, both Funds administration teams and IDeA are working to try and make this process work.

3.23. There were no additions of Employers to the Fund and three cessations since last year: Caterlink, Mears and Westminster Society. It is expected that there will be an agreement reached in 2020 for Ridge Crest Cleaning Services, who are engaged as cleaners of Camden School for Girls, to be admitted to the Pension Fund.

Prepayment of Secondary Contributions

3.24. This report is considered in full

Funding Maturity

3.25. This report is considered in full

Longevity

3.26. Longevity (how long pensioners live and future expectations) is a key determinant of pension fund liabilities. The higher pensioner life expectancy is, the greater a Fund's liabilities are (pensions paid over a longer timeframe from retirement).

3.27. Club Vita (a sister company of Hymans Robertson our actuarial consultant) looks at our own membership's expected longevity and not just the national experience. Data is drawn from 235 funds' experiences with 3 million members. The total fund liabilities are built up by analysing data on individual members of the Fund to build an overall picture

3.28. Based on the results of Club Vita's most recent work our liabilities are assessed to increase by 0.4%. This equates to £6.4m and was shown in the table analysing the change in deficit for the Fund in the triennial valuation report

3.29. The Fund has concentration risk that 50% of the liabilities stem from 12% of the membership. The report also sets out that the lowest paid 50% of members account for 7.5% of liabilities.

Engagement Report

3.30. A summary of the LAPFF Business Meetings and Quarterly Engagement Report Q4 are detailed below.

3.31. LAPFF considers how best to engage with infrastructure investments; and how best to deal with the link between stock lending and reduced voter turnout.

3.32. LAPFF will collect asset manager votes at all companies where LAPFF issued Voting Alerts during 2019 and will collect asset manager votes at FTSE 100 companies to assess their voting profiles. This is in response to a previous brief review of votes back in July that found significant differences between managers' voting records on issues where LAPFF Alerts had been issued.

3.33. Other business meeting reports concerned LAPFF's issues with International Financial Reporting Standards, that do not present the resilience of balance sheets well enough in their opinion. They are also behind the Brydon Review that calls for a separation between the auditing and accounting profession.

3.34. LAPFF will develop an approach to working with policymakers and update their climate change policy framework in response to their Climate Change Survey.

3.35. Engagement by PIRC that quarter saw LAPFF members file shareholder resolutions at Chevron, Amazon, Alphabet, Eli Lilly, Citigroup and Honeywell. This will put pressure on companies to improve their strategies on climate resilience. There are new proposed rules on filing shareholder resolutions in the USA that will soon make it harder to do so. LAPFF also had detailed engagement with high profile companies like National Grid, Southern, National Express and many others emphasising environmental matters.

3.36. The report also tracked the exposure the Fund has to the top 200 fossil fuel companies and the engagement managers have had with them. The exposure was small, with the largest being Royal Dutch Shell, at 3.35% of Camden's equity portfolio at Legal and General.

Business Plan

3.37. This report updated the Committee on future business items and training attended and opportunities

4. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES

4.1. The finance comments of the Executive Director Corporate Services are included in the report.

5. COMMENTS OF THE BOROUGH SOLICITOR

5.1. The Borough Solicitor has been consulted and has no comments to add.