LONDON BOROUGH OF CAMDEN	**WARDS: ALL**
REPORT TITLE: Pension Board Update Report	
REPORT OF: Executive Director Corporate Resources	
FOR SUBMISSION TO: Pension Board	**DATE:** 8 October 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, 3 March 2020, 20 July 2020 and 9 September 2020.

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

Contact Officer: Nigel Mascarenhas
Interim Director of Finance
Finance and Procurement
Corporate Services
Dennis Geffen Annexe
Camley Street
London. N1C 4DG

Telephone: 0207 974 1904
Email: nigel.mascarenhas@camden.gov.uk

RECOMMENDATION:

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

Signed by

Interim Director of Finance ………..… **Agreed**…………….

Date **29 September 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 and it was agreed. 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). 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.

2.23. <u>Councillor Madlani said that the Committee had not been assured by the performance of Harris and asked officers and the Independent Advisor to meet with them on a quarterly basis.</u>

<u>Climate Change Funding Impacts</u>

2.24. This report is considered in full

2.25. 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.

2.26. 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.

<u>Performance report</u>

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.

2.40. 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.

<u>LCIV Progress Report</u>

2.41. 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

2.42. 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.

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

2.44. 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.

2.45. Harry Lamprinopoulos, Client Relations Manager, London CIV, was in attendance at the meeting. He informed the Committee that the CIV had appointed Kevin Corrigan as Interim Chief Investment Officer (CIO), who had been the CIO of Sandair where he managed the wealth for foundations and had previously worked at Goldmans. The Chair expressed concern that this was the 4th interim CIO appointment at CIV and would like to see clarity and stability in the near future.

Business Plan

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

2.47. Committee Members were asked to inform the Head of Treasury and Financial Services if they wished to attend the meetings with Investment Managers or any training sessions

3. PENSION COMMITTEE 3 MARCH 2020

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. Overall 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.

3.4. It was noted that there was no information on the voting outcomes related to climate change issues as there was currently nothing in the guidelines relating to this. Councillor Madlani asked that a report be submitted next year which included voting outcomes relating to climate and ESG issues.

PIRC's Camden Voting Guidelines 2020

3.5. 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.

3.6. Some of the main changes to the 2020 voting policy template were 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

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

3.8. Councillor Madlani suggested that for the next report it would be useful to include a review of Board level commitments and the amendment of voting guidelines. The proposed voting policy on which Camden will vote its shares was approved, as set out in Appendix A of the report.

Performance Report

3.9. 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.

3.10. 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.

3.11. 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.

3.12. 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.

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

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

3.15. 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**

2.27. **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.

2.28. **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.

2.29. **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.

2.30. **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.

2.31. 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.

2.32. **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%.

2.33. **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.

2.34. **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.

2.35. **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.

3.16. **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.

3.17. Committee Members were concerned that Partners were holding 10% of the Fund, but were not performing as well as expected. Karen Shackleton replied that Partners had set themselves an absolute target of 15%, which in her view was optimistic

3.18. Given that the CIV had removed CQS from the watch list, the Chair proposed that the transition of funds from Insight to CQS should now restart, subject to further discussions between the Executive Director Corporate Services, the Chair, Karen Shackleton and ISIO and confirmation from those officers that the transition should proceed. As the next Committee meeting was not until July authority was delegated to the Executive Director Corporate Services with regard to the conclusion of this transfer. As previously agreed, the transition would be monitored over the remaining quarters by the Pension Committee.

LCIV Progress Report

3.19. 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.

3.20. 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.

3.21. 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.

3.22. <u>The committee noted the report.</u>

Funding Strategy Statement

3.23. 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.

3.24. 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.

3.25. 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

3.26. 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.

3.27. 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.

3.28. 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.

3.29. The committee noted the contents of the report and gave the Executive Director of Corporate Services delegated authority, in consultation with the Chair of Pension Committee, to agree the final terms of substitution of funds for the Improvement and Development Agency.

Prepayment of Secondary Contributions

3.30. This report is considered in full.

3.31. It was noted that if the Pension Committee agreed this proposal, then the approach would have to be cleared with the Fund's Auditors, Mazars. If the Auditor agreed the approach then the Committee would need to agree how to deploy the assets it receives early for 2020/21-2022/23.

3.32. The committee agreed the Council can prepay its secondary contributions on 1st April 2020, amounting to £57.323m, as set out in the report

Funding Maturity

3.33. This report is considered in full

Longevity

3.34. 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).

3.35. 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

3.36. 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

3.37. 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.

3.38. The committee asked about the effect of the pandemic on the Fund. The actuary said that although many people might die, the effect of a pandemic on the assets would usually be worse and would, therefore, have a detrimental effect on the Fund.

3.39. The committee noted the report.

Engagement Report

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

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

3.42. 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.

3.43. 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.

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

3.45. 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.

3.46. 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

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

3.48. The committee noted the report.

4. PENSION COMMITTEE 20 JULY 2020

Performance Report

4.1. The portfolio had a market value of £1.822bn at 31 December 2019, compared with £1.557bn at 31 March 2020. This gave a theoretical estimated funding ratio of 92% (£1.687m of liabilities), below the 103% ratio used at Triennial Valuation.

4.2. The global pandemic and subsequent economic shutdown that occurred towards the end of Q1 2020, caused heavy falls across all equity indices, with the UK equity market performing the worst, as GDP fell by 5.8% in March (and later 20.4% in April, the worst monthly UK GDP falls ever recorded). The FTSE 100 had its biggest fall since 1987 due to its sectoral composition, particularly its oil and gas exposure. Oil and gas prices plummeted due to their strong correlation with economic activity, compounded by the OPEC price war: Brent crude fell to its lowest level since 2002. Financial stocks also fell in value but health care and technology sectors performed better. Property only fell 1.4% in the quarter, but due to the lack of transactions, many valuation agents cited material uncertainty over property valuations. Following central bank stimulus packages, developed market sovereign bond yields fell to near record lows and investors liquidated bonds, preferring cash. However, on 23 March 2020, the Fed pledged to buy corporate debt since causing double-digit growth in investment grade credit.

4.3. Markets were volatile and a recovery has occurred in equity markets since the end of Q1 2020. However, the ultimate shape of the recovery depends upon the depth of economic scarring incurred and whether a second wave of the pandemic occurs.

4.4. Overall the Fund produced a -14.5% return compared to a target of -10.7% in Q1 2020. However, at Q2 2020, it was valued at £1.768bn, a fall of 3% from Q4 2019.

4.5. The longer the time frame, the better the performance of the Fund. For the year to 31 March 2020, the Fund fell only by 6.7%, below the composite target of -3.3%. Since inception for these funds, the return is positive at 8.2%, but still below the target of 10.3%. However, 8.2% is still considerably above the 4.5% assumption used in the Triennial Valuation.

TABLE 7: MANAGERS' PERFORMANCE

Name	Trailing 3 Months	Trailing 1 Year	Trailing 2 Years	Trailing 3 Years	Since Inception
Harris	-26.8	-16.3	-8.9	-5.7	3.4
Custom Global Equities (Gross) + 2.5%	-15.4	-3.9	4.6	4.9	10.5
Excess Return	-11.5	-12.5	-13.5	-10.6	-7.0
Baillie Gifford (London CIV)	-13.2	-1.3	3.6	-	1.6
Custom Global Equities (Gross) +2.5%	-15.4	-3.9	4.6	-	2.6
Excess Return	2.2	2.6	-1.0	-	-1.0
L&G UK Equity	-25.2	-18.5	-6.9	-4.2	8.2
FTSE All Share + 0%	-25.1	-18.5	-6.9	-4.2	8.0
Excess Return	-0.0	-0.1	0.0	0.0	0.2
L&G Global Equity	-15.9	-6.2	1.9	2.2	10.8
FTSE All-World + 0%	-15.9	-6.2	1.9	2.2	10.8
Excess Return	0.0	0.0	0.0	0.0	0.0
Insight Investment	-7.9	-5.5	-5.5	-3.6	-0.4
3 month LIBOR + 4%	1.2	4.8	4.8	4.7	4.5
Excess Return	-9.0	-10.3	-10.3	-8.3	-4.9
CQS (LCIV)	-17.0	-	-	-	-14.8
3 Month GBP Libor +4.5%	1.3	-	-	-	-
Excess Return	-18.2	-	-	-	-
L&G Passive ILG	1.9	2.4	4.0	2.9	8.7
FTSE Over 5yr Index Linked Gilts + 0%	1.8	2.0	3.6	2.4	8.5
Excess Return	0.1	0.4	0.5	0.5	0.2
CBRE	-0.2	0.1	3.5	5.4	7.8
All Balanced Property Funds + 1%	-1.1	1.0	3.4	5.9	8.1
Excess Return	0.9	-0.9	0.1	-0.5	-0.3
Partners Group 2009 Euro Fund	-2.2	-2.2	-2.2	1.1	8.1
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	-5.7	-17.2	-17.2	-13.9	-6.9
Partners Group 2013 USD Fund	5.7	8.6	11.0	9.1	17.1
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	2.1	-6.4	-4.0	-5.9	2.1
Partners Group 2017 USD Fund	11.9	17.6			10.5
Absolute 15%	3.6	15.0			15.0
Excess Return	8.3	2.6	-	-	-4.5
HarbourVest	6.5	33.0	23.9	17.5	25.9
Absolute 8%	1.9	8.0	8.0	8.0	7.8
Excess Return	4.6	25.0	15.9	9.5	18.0
Barings	-18.0	-13.2	-6.1	-3.0	1.4
3 month LIBOR + 4%	1.2	4.8	4.8	4.7	4.6
Excess Return	-19.1	-18.0	-10.9	-7.7	-3.2
Ruffer (London CIV)	-2.3	3.2	1.1	-	1.1
3 month LIBOR + 3%	0.9	3.8	3.8	-	3.8
Excess Return	-3.2	-0.6	-2.7	-	-2.7
Stepstone (London CIV)	0.0	-	-	-	0.0
9% p.a Net	2.2	-	-	-	2.9
Excess Return	-2.2	-	-	-	-2.9
Standard Life	-2.0	1.3	0.5	0.6	0.7
6 month LIBOR+5%	1.4	5.9	5.9	5.8	5.7
Excess Return	-3.4	-4.6	-5.4	-5.2	-5.0
Total Fund	**-14.5**	**-6.7**	**-1.1**	**0.6**	**8.2**
Total Fund Composite Target	**-10.7**	**-3.3**	**2.6**	**3.4**	**10.3**
Excess Return	**-3.8**	**-3.4**	**-3.7**	**-2.8**	**-2.2**

4.4. **Harris** generated an absolute return of -26.8% in Q1 2020 and -16.3% for the year. They trail their targets by a large margin across all periods, by 7% since inception. The top performer in the portfolio was Regeneron Pharmaceutials

who contributed 0.95% to the return, owing to strong earnings growth, who have also made progress in creating medication to treat coronavirus. Their bottom performers were Glencore, BNP Paribas, CNH Industrial, Daimler and Credit Suisse who contributed -2.65% to -1.61% respectively to overall returns. Most of the underperformance (75%) came from non-US stocks which formed 60% of the portfolio. As value managers, they are expected to perform their best in the aftermath of a recession, as the sell-off will have created opportunities to find companies that are even more undervalued than would have been the case otherwise. Their quarterly report says they "look to yield shareholder rewards over a typical five to seven-year holding timeframe" implying their performance should ultimately be judged over this period. Since quarter-end, there has been around 2% of relative performance catch-up and they have demonstrated large swings in their relative performance before. For example, in 1999, they went from being 20% below to being 80% over the benchmark return.

4.5. **Baillie Gifford (London Collective Investment Vehicle)** produced a return of -13.2% over the quarter, better than target by 2.2% and unexpected given their strong beta (correlation with market movements). Their one year excess return is 2.6% but their excess return since inception is -1%. At a manager meeting in February, they said they "are trying to see the world in other ways", using academic research to assess companies instead. They have reduced cyclical and latent growth stocks in favour of rapid growth companies including tech names and this helps to explain their improved results. For example, their top ten contributors included the likes of Teladoc Health Inc, Tesla, Amazon, Netflix and Microsoft. Looking to the near future however, LCIV expect the fund to lag the benchmark if there is an economic recovery led by cyclical stocks.

4.6. **Insight** delivered poor results across all periods: -7.9% against a target of 1.2% for Q1 2020. Since inception, they have achieved -0.4% whereas the target is 4.5%. Insight blamed their poor quarterly results on a long 30 year breakeven inflation position in US Treasury Inflation Protected Securities (TIPS), where prices fell. Country allocation contributed negatively to returns, being long on Germany versus the USA was the largest component, and to a similar degree their long position on investment grade credit also contributed negatively to portfolio returns.

4.7. **CQS (London Collective Investment Vehicle)** had falls of 17% against a target of 1.3%. They took some steps to reduce cyclical exposure before the falls in March, but given the size of the fund and liquidity in the market, CQS were unable to protect the fund by using increased duration in response to falling yields, or credit default swaps. The Pension Committee will note that there have been a number of changes to the management team at CQS and have only recently been taken off watch. However, no members of the investment team that directly manage or contribute to the portfolio investments have left the team. LCIV will still be holding monthly monitoring meetings with CQS despite the fact they are no longer "On-Watch".

4.8. **CBRE** are only slightly lagging their target since inception, 7.8% versus 8.1%, but their more recent returns have not been as strong. For Q1 2020, the Fund fell 0.2% against -1.1% target and in the year to 31 March 2020, returns were only 0.1% versus a target of 1%. This is a worsening of performance when compared to the trailing two and three year results. They attribute their

quarterly performance figures to exposure to industrial and other commercial sectors but funds in the retail sector have been a drag on returns. The impact of COVID-19 has yet to significantly affect these valuations as they lag. They believe the Fund's portfolio is well positioned with 85% in low/medium risk holdings. Loan to value ratios are robust enough to cope with moderate value corrections and interest rate coverage ratios show good margins against covenants, in their opinion. But the portfolio is overweight to prime dominant shopping centres in their view, which they believe have heightened near term risks. They are monitoring rental collections closely which are expected to fall as the effects of the economic downturn are realised.

4.9. The **Partners Group** funds' performance in Q1 (2020) are considered individually, but the full impact of COVID-19 has yet to be realised on property, affecting rents, net asset values and construction delays.

vii. The 2009 Euro fund down 2.2% over the quarter against a return of 3.6% and remained 95% funded at the end of March 2020. There was a €143k distribution in the quarter, but the return since inception of 8.1% is still considerably below target of 15%, which will notbe achieved now.

viii. The 2013 Dollar fund exceeded target by 2.1% in Q1 2020 has a return of 17.1% since inception, which is above target. The fund is 72% funded and paid out a $872k distribution in the period, from the sale and rental income from Annington Homes, one of the largest private residential property owners in the UK. As to be expected, the fund is closely monitoring projects that are affected by COVID-19, citing retail, hospitality and leisure sectors as being the most badly affected.

ix. The 2017 US fund achieved 11.9% over a target of 3.6% in the quarter. This Partners fund has now invested 47.5% of its $94m initial commitment, following a capital call in the quarter mentioned earlier. The fund's net multiple is 1.04.

4.10. **HarbourVest** delivered a return of 33% against a target of 8% in the year. Their valuations always lag and so the full effects of the current macroeconomic situation are yet to be seen on HarbourVest's holdings. The fund is 63% funded and is a 2016 vintage, meaning that it's in the "building value" stage where meaningful value has been created but yet to be realised. HarbourVest believe this to be the portfolio stage that is most susceptible to the impact of the current crisis.

4.11. **Barings** – returned -18% in the quarter against a target of 1.2%. Over the year they fell 13.2% against a target of 4.8%. They have however delivered a positive return since inception of 1.4%. They are expecting a sharp bounce back due to their positions on emerging debt in Brazil and Mexico. Barings attributed their poor returns due to a start of year portfolio that was positioned for global growth.

4.12. **Ruffer (London Collective Investment Vehicle)**, were 3.2% below target for the quarter, at -2.3%, -0.6% against target for the year which is better than its -2.7% excess return result since inception. These results are closer to expectations for a diversified growth fund. Their long-held defensive positions came into fruition helping to protect the fund from steep falls. In Q1 2020, the portfolio weighting of equities went down from 47% to 34% and government fixed income assets increased in weighting from 37% to 47%.

4.13. **Standard Life**, another diversified growth fund, delivered similar quarterly results to Ruffer at -2%, still below target of 1.4%. Their performance since inception is less than Ruffer's at 0.7% which is 5% below target. Positive contributions came from their short US small-cap equity position, their position on US v German interest rates and Australian interest rate strategy. Negative contributions came from US equity, global REITs (real estate), high-yield credit and Mexican government bond positions. They are still defensively positioned, but have recently added some higher risk assets into the portfolio such as investment-grade corporate bonds, US and Korean equities.

4.14. The committee noted the report

Investment Strategy Review

4.15. This report is considered in full. There was concern at the meeting about gaining exposure to property in such times, but reassurance was given that there would be very little high street exposure with effective due diligence and care over the timing of its implementation.

4.16. The committee referred to the recommendations in the report and agreed them all

Cash Flow and Membership Report

4.17. This report detailed the pension fund cash flow and membership statistics for the previous year and over the longer term.

4.18. The overall cash flow position was positive in 2019-20, which was in line with the previous year.

- There was a slight slowdown in benefit payments in Q1 2020.
- Transfer values had increased as 12% of officers made up 50% of liabilities and it was mainly senior officers who were leaving.
- Employer contributions received during the year were greater than in the previous year and to a lesser degree, employee contributions increased too.
- The clearest trend over the years has been the increase in retirement pensions paid, caused by a combination of an increase in the number of pensioners and annual inflationary increases to pension payments
- Cash received from investment income is the main factor that has consistently turned the Fund into a cash flow positive position, and similar to last year in that respect. Investment income was £1.5m higher than last year at £6.0m. This is not surprising given the strong performance of equities over most of the 19-20 year. The Coronavirus pandemic will mean investment income in 20-21 will not be as strong.

4.19. The membership numbers have continued to grow, from 21,913 to 22,583 members. Pension numbers had increased due largely to auto-enrolment and the growth in Council employees as a result of insourcing. The "pyramid" shape profile of the Fund's membership demonstrates that a significant proportion of the fund's total membership is aged between 45 and 70 (55%).

4.20. The committee noted the report.

London Collective Investment Vehicle Progress Report

4.21. This report provided a quarterly update on developments at the London Collective Investment Vehicle (CIV) in creating sub-funds for the spectrum of asset classes, on-boarding of assets and development of the CIV's staff resource.

4.22. Jason Fletcher has been appointed as the new permanent Chief Investment Officer (CIO). He began the role in July 2020, bringing with him over 25 years of experience in the financial services industry and a familiarity with the pooling environment. There has also been an appointment of a new Head of Responsible Investment role: Jacqueline Jackson. This role is to lead and develop Responsible Investment and to better understand ESG (environment, social, governance) requirements and expectation. Councillor Madlani had attended the recent LCIV AGM and expressed concern at the lack of diversity on the LCIV Board.

4.23. The year-on-year employee turnover to March 2020 in the investment team was 33.3% and overall it was 16%. The CIV have an overall budget for 30 staff in the year to March 2020.

4.24. An RI (Responsible Investment) Reference Group has been established to help steer this work. The Group's membership will include representatives from pension chairs, S151 officers and pension fund managers. They are open to volunteers for the group.

4.25. A Cost Transparency Working Group (CTWG) has been established which has the objectives:

- agree the cost/benefit framework for Client Funds on an ongoing basis
- assist Client Funds with reporting requirements on transition costs and cost transparency
- establish a clear business case for pooling and track the costs and benefits on an ongoing basis, including those Client Funds with assets outside the pool
- conduct a fee model review in 2020

4.26. On funds, a recent survey from the LCIV found that amongst the London Pool Members the shift to passive funds has outstripped active pooling. However, at the same time, the Global Alpha Growth Fund by Baillie Gifford, an active manager, has performed the best relative to its benchmark.

4.27. LCIV has decided that the LCIV MAC Fund is no longer 'On Watch' however, they will be increasing the level of monitoring of CQS for a six month period during which more comprehensive reporting requirements will be implemented. They conduct deep-dive investment and operational due diligence on all managers on an annual basis, gathering their internal control reports and UNPRI reports, along with other monitoring activities on a more regular basis.

4.28. The committee noted the report along with the Fund Launch Plan detailed in the appendix.

Risk Register

4.29. This report is considered in full.

4.30. It was noted that following the triennial valuation and a changed basis for calculating the funding level old risk 4 – that 'liabilities are no longer linked to gilt yields' has been deleted as liabilities were now linked to investment returns with an expectation of a 70% likelihood of achieving returns of 4.5%.

4.31. Committee Members also noted that under demographic risks - risk 21 'Deteriorating active membership' - was not considered such an issue as active members were increasing, mainly due to auto enrolment and insourcing. The score had been reduced from 12 to 8 to reflect this.

4.32. Committee agreed the risk register.

Engagement Report

4.33. This report brings Members up to date with engagement activity undertaken by the Fund and on its behalf by LAPFF (the Local Authority Pension Fund Forum) since the last Committee meeting.

4.34. The business meetings were summarised:

- Carbon capture and storage (CCS) was researched and concluded that it was not a net contributor to zero emissions.
- On-going work on the accounting aspects of climate change continued, examining whether balance sheets require impairment.
- LAPFF concluded that they will consider offering a bespoke voting alerting service for interested members; also consider how the Forum can raise awareness of voting alerts.

4.35. The Quarterly Engagement Report was summarised and this highlighted:

- Many AGMs were going ahead virtually.
- The forum issued a voting alert for ANZ resolutions to encourage the bank to take a stronger, more transparent stance on climate
- In December, a shareholder resolution was filed to Barclays plc calling for a phase-out of financing activities to the most carbon-intensive energy companies. LAPFF subsequently met with Barclays to discuss climate lending. This was voted upon at the May 2020 AGM and it was however, rejected, but sent a signal nonetheless.
- LAPFF have written to eleven insurance providers and three banks to determine how well they are incorporating climate considerations.
- The Forum engaged with three companies involved with high risk tailings dams in Brazil and is engaging with affected community members.
- The Security Exchange Commission had a consultation out on lowering the number of shareholder resolutions in the US, which LAPFF responded to.
- LAPFF partnered with other institutional investors, engaging with the Big Four accounting firms and others on how to incorporate climate appropriately into the audit process.
- Other engagements took place on topics such as responsible internet content, the opioid crisis, 19 companies non-compliant with the FTSE350 Modern Slavery Act, Delta Airlines on Paris compliance, Nestle on renewable energy alternatives, Rio Tinto on scope 3 emissions.

- A meeting between LAPFF and Sir Jon Thompson, new CEO of the Financial Reporting Council was held. Issues related to audit, accounting standards and pooled votes were discussed.
- LAPFF signed onto an investor letter submitted to the OECD on its base erosion and profit sharing (BEPS) plan related to tax transparency

4.36. A total of 1382 resolutions were voted upon across 110 meetings in the quarter. The vast majority of meetings occurred in the UK. There were no notable oppose vote results, where the oppose result is at least 10%. The greatest number of oppose votes, 129, were in relation to the appointment of Directors, followed by annual reports at 93 (for example, a company may not have reported carbon emissions in its annual report), share issue/re-purchase at 89 and auditors at 24. Executive pay scheme votes only had 8 oppositions. Baillie Gifford, JP Morgan and Aberdeen Standard - key stakeholders of the Pension Fund – were amongst the voting alerts.

4.37. The Fund's exposure to fossil fuels was highlighted along with associated engagement. This stood at 5.34% amongst equity investments.

4.38. A report from Isio found that various ESG (environmental, social and governance) indices performed at least as well or better than their non-ESG counterparts in the crisis to 31 March 2020 and over the last five years. Over Q1 2020, Isio found that ESG leaders outperformed by an average of 1.5%.

4.39. Manager cost templates, giving a full breakdown of all types of fees incurred, are now available on the SAB compliance system for most managers helping to facilitate easier comparisons between managers.

4.40. The Supreme Court reached a judgement on the boycotts case in June. The implication of the ruling is that administering authorities, when taking non-financial factors into account for investment decisions, must "not involve a risk of significant financial detriment" and only where the administering authority has "good reason to think that scheme members would share the concern."

4.41. <u>The committee noted the report</u>

<u>Business Plan</u>

4.42. This report updated the Committee on future business items and training attended and opportunities. It was noted that a report on "Inflation Protection" would also be submitted to the November 2020 meeting.

4.43. The Chair informed the meeting that as a new member of the Committee Councillor Mulholland would be receiving pension training. Committee Members were asked to inform the Head of Treasury and Financial Services if they wished to attend the meetings with Investment Managers or any training sessions, including refresher training.

4.44. <u>The committee noted the report</u>

5. **PENSION COMMITTEE 09 SEPTEMBER 2020**

Performance Report

5.1. The portfolio had a market value of £1.557bn at 31 March 2020, compared with £1.769bn at 30 June 2020. This gave a theoretical estimated funding ratio in June 2020 of 96% (£1.706m of liabilities)

5.2. There was a strong recovery in equities and credit markets compared to Q1 2020. Equity market indices recorded double-digit growth in the quarter. North American equities rose the most, given its sector bias towards technology, and UK equities the least given its sector bias to financials and hardly any technology. Basic materials, industrials and consumer services (cyclical sectors) outperformed the market, and defensive sectors (utilities, telecoms and healthcare) lagged. Dividend cuts were seen with banks halting dividends and Shell cutting its dividend.

5.3. The Fed expanded its corporate credit purchase programmes to include speculative-grade debt, the European Central Bank announced a further €600bn of quantitative easing (QE) and the Bank of England raised its QE programme from £645bn to £745bn.

5.4. Government bonds held steady over the quarter, attractive for risk-averse investors in uncertain times. Credit markets strongly rebounded from Q1 2020 due to optimism from eased lockdowns.

5.5. Property has not experienced extreme movements in 2020 but there is little transaction activity to facilitate valuations. Therefore, the full effects of the pandemic on property prices remains to be seen. According to Hymans, initial evidence suggests that commercial tenants in England and Wales withheld rents due in June 2020 to a greater extent than in March.

5.6. GDP fell in Q1 2020 (-2.2%) and in Q2 2020 (-20.4%) meaning the UK is in a recession for the first time since 2008. The positive news is that the pace in downgrades to country GDP forecasts has slowed, according to Hymans.

5.7. UK CPI inflation fell from 1.5% in March to 0.5% in May driven largely by low energy prices. This facilitates low interest rates and there is even a chance of negative interest rates in the UK. Sterling fell slightly over the quarter against the dollar and euro. In trade-weighted terms, it has fallen by more than 2% since the end of March

6. TABLE 7: MANAGERS' PERFORMANCE

Name	Trailing 3 Months	Trailing 1 Year	Trailing 2 Years	Trailing 3 Years	Since Inception
Harris	23.7	-3.6	-1.1	0.5	7.6
Custom Global Equities (Gross) + 2.5%	20.6	8.4	10.7	11.2	14.0
Excess Return	3.1	-12.0	-11.8	-10.7	-6.4
Baillie Gifford (London CIV)	27.9	17.3	13.2	-	12.8
Custom Global Equities (Gross) +2.5%	20.6	8.4	10.7	-	10.8
Excess Return	7.4	8.9	2.5	-	1.9
L&G UK Equity	10.2	-13.0	-6.4	-1.5	9.0
FTSE All Share + 0%	10.2	-13.0	-6.5	-1.6	8.8
Excess Return	0.0	-0.0	0.0	0.1	0.2
L&G Global Equity	19.7	5.7	7.9	8.4	12.7
FTSE All-World + 0%	19.7	5.7	7.9	8.4	12.7
Excess Return	-0.0	-0.0	-0.0	0.0	0.0
Insight Investment	2.8	-1.8	-2.1	-2.6	0.0
3 month LIBOR + 4%	1.1	4.7	4.8	4.7	4.5
Excess Return	1.7	-6.5	-6.9	-7.2	-4.5
CQS (LCIV)	12.7	-4.6	-	-	-3.4
3 Month GBP Libor +4.5%	1.2	5.2	-	-	-
Excess Return	11.5	-9.8	-	-	-
L&G Passive ILG	11.5	12.0	10.5	7.6	9.6
FTSE Over 5yr Index Linked Gilts + 0%	11.4	11.5	10.0	7.1	9.4
Excess Return	0.1	0.5	0.5	0.5	0.2
CBRE	-3.1	-3.8	1.0	3.6	7.2
All Balanced Property Funds + 1%	0.2	0.4	2.4	5.1	8.0
Excess Return	-3.3	-4.1	-1.4	-1.5	-0.7
Partners Group 2009 Euro Fund	0.2	-5.3	-1.8	1.0	7.9
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	-3.4	-20.3	-16.8	-14.0	-7.1
Partners Group 2013 USD Fund	-8.3	-4.1	2.4	5.8	14.8
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	-11.8	-19.1	-12.6	-9.2	-0.2
Partners Group 2017 USD Fund	-8.3	3.5			5.5
Absolute 15%	3.6	15.0			15.0
Excess Return	-11.9	-11.5	-	-	-9.5
HarbourVest	-6.2	11.1	15.4	14.1	22.1
Absolute 8%	1.9	8.0	8.0	8.0	7.8
Excess Return	-8.1	3.1	7.4	6.1	14.3
Barings	12.3	-5.0	-1.2	0.1	3.0
3 month LIBOR + 4%	1.1	4.7	4.8	4.7	4.6
Excess Return	11.2	-9.7	-6.0	-4.6	-1.6
Ruffer (London CIV)	6.4	8.1	3.2	-	3.7
3 month LIBOR + 3%	0.8	3.7	3.8	-	3.8
Excess Return	5.5	4.4	-0.6	-	-0.1
Stepstone (London CIV)	-0.0	-	-	-	-0.0
9% p.a Net	2.2	-	-	-	5.2
Excess Return	-2.2	-	-	-	-5.2
Standard Life	2.5	2.5	2.9	1.0	1.3
6 month LIBOR+5%	1.3	5.8	5.9	5.8	5.7
Excess Return	1.2	-3.3	-3.0	-4.8	-4.5
Total Fund	**13.8**	**1.5**	**3.2**	**4.5**	**9.2**
Total Fund Composite Target	**9.5**	**2.2**	**4.7**	**6.1**	**11.0**
Excess Return	**4.3**	**-0.7**	**-1.5**	**-1.6**	**-1.8**

5.10. **Harris** had a strong quarter, outperforming the benchmark by 3.1%, consistent with their previous claims of being able to perform their best in a recovery. Since inception, their returns are more in line with the long-run average on equity returns (8% over 30 years according to PIRC). They have outperformed the MSCI All Country World Value Index over five years, one year, YTD and the quarter. The problem is that momentum strategies have outperformed value strategies over the last decade. They are 40.1% invested in the USA, 39% in Europe (ex UK) and 9.9% in the UK. Compared to the MSCI All Country World Index, they are overweight in financials, consumer discretionary, communications and underweight in health care stocks and information technology stocks. Their top holdings include Daimler, BNP Paribas, Credit Suisse Group, Glencore and Alphabet, at close to 5.5% each of the portfolio size. Harris added to their Glencore holding over the quarter and cut back Regeneron Pharmaceuticals, realising the strong gains it has made over the past four years.

5.11. **Baillie Gifford (London Collective Investment Vehicle)** have again outperformed the benchmark over the quarter and across all time periods. This quarter their excess return was 7.4%. Their focus on companies that are embracing digitalisation helps to explain their success. The key risks they face are the increasing regulation of the digital world and the upcoming retirement of Charles Plowden, who has been with the Global Alpha fund since inception. He will be replaced by Helen Xiong who has a successful track record, but only with a single-country fund rather than a global one.

5.12. **Insight** had a better quarter than last, outperforming the benchmark by 1.7%. Across other time horizons, their performance is still considerably below target however. The main reason for their gain was their long position in investment grade credit. The other reason was their long 30 year breakeven inflation position in US Treasury Inflation Protected Securities (US TIPS), where prices rose. When prices of these fell last quarter, this strongly attributed to their poor performance.

5.13. **CQS (London Collective Investment Vehicle)** had strong gains of 12.7% in Q2 2020, a reflection of market movements and an improvement from its heavy losses last quarter. The portfolio manager has positioned the portfolio to benefit from a longer recovery than is implied by market pricing. If defaults come into fruition then the fund's shift to more defensive names should yield results. However, CQS is still on "enhanced monitoring". In June, the LCIV was notified of a 20% cut to staffing levels at CQS and its flagship hedge fund is one of the worst-performing hedge funds this year.

5.14. **CBRE** lags its target on all time horizons, since inception by 0.7%, but down 3.1% over the quarter. This is not surprising as the impact of the pandemic is finally reflecting in real estate valuations, as transactions pick up. They say it is still too early to make a definitive judgement on the shape of the recovery. Performance was positively impacted by exposure to industrial and other commercial sectors, but retail has been a drag on returns. Based on gross asset values, shops and shopping centres represent 11.9% of the Camden portfolio. They forecast a 13% fall in capital values within the UK property market in 2020. As for rents, their monthly index shows All Property rents falling 1.0% quarter on quarter in Q2 2020.

5.15. The **Partners Group** funds' performance in Q2 2020 contrasted heavily to last quarter, as the effects of the pandemic began to impact valuations. They are viewed individually for the three funds:

x. The 2009 Euro fund gained only 0.2% in the quarter and performed the best out of the three funds. However, this fund is 95% funded and so almost fully mature, therefore these modest results are not surprising.

xi. The 2013 Dollar fund, which still has a 28% unfunded commitment, fell over the quarter by 8.3%. Like the 2017 fund, after a sudden fall in April, its net multiple then increased over the quarter. This was due to favourable foreign currency movements and several uplifts in valuations.

xii. The 2017 US fund fell by the same amount over the quarter, 11.8% below target. It is still a relatively young fund however, with the unfunded commitment remaining at 55.0%. After a sudden fall in April, its net multiple then increased over the quarter from positive revaluations across the portfolio arising from improved cash flow visibility on rental income projections.

5.16. **HarbourVest** delivered a return of -6.2% against a target of 1.9% in Q2 2020. Its return since inception has decreased from 33.0% last quarter to 22.1% as at 30 June 2020, still far above its target of 8%. As the fund is in its "building value" stage, this makes it more susceptible to black swan events such as a pandemic. They say that 23% of the 2016 fund is presently at high or heightened risk. But they feel confident that they can deliver results in any environment, as their General Partners focus on maximising liquidity to bridge companies through the crisis.

5.17. **Barings** – had an improvement in results from last quarter, returning 12.3% in Q2 2020. They are still 1.6% below target since inception however. Their bounce back was attributed to returns from US equities, especially in technologies and their purchases in Investment Grade bonds were timely.

5.18. **Ruffer (London Collective Investment Vehicle)**, performed well against target over Q2 2020, achieving 6.4% growth against a 0.8% target. Since inception, they are only 0.1% below target. They are performing the best out of all the diversified growth funds. Their Q2 2020 gains were attributed in half from their exposure to gold and gold mining equities. Total equity exposure is just under 30% which is sensitive to the underlying recovery.

5.19. **Standard Life** outperformed target by 1.2% but since inception is below target by 4.5%. Their quarterly performance was attributed to market return strategies on US equities and high yield credit. High yield credit constitutes 19.2% of the portfolio and is by far the most dominant holding in the portfolio.

5.20. The committee noted the report.

Long Lease Property

5.21. This report is considered in full.

5.22. Discussion was focused around concern over investing in commercial property at a time when there could be a fundamental change in the property market as staff now tend to work from home. Reassurance was given from officers, advisors and Aviva that this fund should still meet target:

- The pandemic is now a known risk rather than an unknown risk which makes it easier to price into decisions.
- Most of the return comes from lease income rather than capital values
- Aviva will only work with good quality tenants, like top universities, supermarkets, hospitals and they use a "credit rating" style screening process taking into account sector trends
- It's best to view the fund as a credit fund in the way it behaves and neither does it invest entirely in long lease property.

5.23. Concern was expressed about the investment team composition being entirely male and the Chair wanted Aviva to come up with an action plan to address this within the next year. Also on an ESG front, it was reported they are signed up to the "30percentclub" initiative on gender diversity and the independent advisor considered this fund to be well aligned to the United Nations Sustainable Development Goals (SDGs) which the Fund prioritises in its Investor Belief Statement. Aviva said that they sometimes build ESG clauses into their covenants and so whilst there are no voting rights with these asset classes, ESG concerns can still be addressed.

5.24. The committee noted and agreed the recommendations in the report.

London Collective Investment Vehicle Progress Report

5.25. The LCIV AGM was held on 16 July 2020 where the Annual Review, financial statements, governance progress review and appointments to the Shareholder Committee were announced. Their financial statements state they are a going concern and have capital amounts far in excess of what is required.

5.26. The Annual Review sets out that 46% of client fund assets are pooled as at 31 March 2020 and LCIV are aiming for 75% pooled by 2023. Their growth of assets under management has stalled however: in March 2019 they had £8.2bn AUM and at May 2020 they had £8.5bn. It is hoped that the Cost Transparency Working Group will be able to better provide a clear business case for pooling and track the costs and benefits of doing so on an ongoing basis. Revised guidance from the MHCLG on pooling is expected.

5.27. On an ESG front, the Annual Review reports LCIV as a signatory to the UNPRI and SAB Code of Transparency. Their gender pay ratio analysis says that for every £1 the median man earns at the LCIV, the median woman earns £0.73 and that 48% of employees are women. Their external audit was completed with no audit recommendations or findings and the Annual Review by the Depositary was positive.

5.28. They delivered on cost budget but failed to meet their budget forecasts for income: they were £500k under budget on management fees. However, their operating loss was within budget. Moving forward, they plan to undertake a cost benchmarking review and a funding review: the shift towards passive funds has impacted their funding model. At their latest business update meeting, it was highlighted that since inception, the LCIV has saved clients £23.9m of fees by pooling.

5.29. The LCIV investment team is considering having another manager alongside CQS to manage the LCIV MAC fund, following the concerns over their poor

performance in 2020 and their high staff turnover. Their flagship hedge fund has also had poor performance. More details are expected in the next couple of months and there will not be a change of investment mandate needed. CQS remains on “enhanced monitoring” and investment scheduled from the sale of this Fund’s Insight investment has been paused whilst we await further developments from the CIV. If a manager was appointed in the autumn, due diligence could be undertaken and the Committee could look at the situation again at its March meeting. This would offer clients a blend of CQS and a new manager, which mitigated against single manager risk which was important.

5.30. The committee noted the report

The Pension Fund Annual Report

5.31. The Annual Report pulls together many of the reports and statements the Fund currently produces, and members of the Fund should find the single publication a good source of information on key matters about the Fund. The accounts have yet to be audited but will be very soon, with no issues expected.

5.32. Mazars are yet to sign off the accounts due to valuation uncertainties of the main accounts and the auditor usually signs off both the main accounts and the Pension Fund accounts at the same time.

5.33. The report provides an outline of Camden’s governance and management of the Local Government Pension Scheme and updates readers on the cost of administering the scheme. For 2019/20, scheme administration was £27.70 per member of the Fund compared to £24.47 the year before. The increase is largely attributed to higher actuarial costs being a Triennial Valuation year and staffing costs have increased as the shared service implement major IT projects.

5.34. The committee noted the report

Review of Fund Manager’s Performance on Environment, Social and Governance

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

5.36. In last year’s ESG report the proportion of assets in fossil fuels had fallen from 12.81% in 2010 to 4.2% in 2019. At June 2020, for our main equity holdings, the percentage invested in fossil fuel related companies was 4.66%.

5.37. All the Strategy and Governance scores collated from UN PRI reports were largely better than the industry average with the exception of Harris, who achieved a score of B which is below median. However, they have a new Director of Responsible Investment who joined the firm 1 month ago, who will no doubt look to improve their score. Their MSCI ESG rating is better, at A grade, putting them in the average category. It is possible to get an AA or AAA grade with the MSCI ESG rating however, and those who do are in the top 25% of scores.

5.38. None of the managers are below the national average on gender pay gap, but a majority are better than average for the financial sector and the direction of travel is predominantly downward or stable. Bonus pay paints a starker picture in terms of pay gap. Bonus pay gap for all employers where this

information is available shows male employees generally receive over 50% more in bonus pay than their female counterparts. These results are little changed from last year but progress may not be fast, as it takes time for the make-up of an organisation to change in response to a change in policies.

5.39. The gender diversity mix of the Boards of managers tended to be in line with the national average but the percentages deviated away from average in larger populations, like the workforce and those at senior management level.

5.40. The Chair requested that we should write to managers where the direction of travel is worse, the gender pay gap is more than 30% for senior management and if they have a UNPRI less than A grade.

5.41. The committee noted the report.

Engagement Report

5.42. The business meetings of LAPFF were summarised:

5.43. LAPFF proposed an amendment to its policy: "there are reasons to limit reliance on early-stage technologies for which future rates of deployment are highly uncertain: that is why the SDS (Sustainable Development Scenario) emphasise the importance of early action on reducing emissions."

5.44. Accounting for climate change is gaining traction as there is a risk stranded assets are being carried at too high a value on balance sheets. Currently no accounting standards exist on this subject and this hoped to change.

5.45. An overview of asset manager voting on LAPFF alerts showed there is a variation between investment managers and that managers were more likely to vote for shareholder proposals than against board directors. There were difficulties with data collection however. The results showed that around a third of managers voted in line with LAPFF recommendations. On shareholder resolutions alone, alignment was slightly more than a third, whereas on director elections it was around a quarter. It was proposed to make the data underpinning this research available on the LAPFF website.

5.46. The Quarterly Engagement Report mentioned:

- It supports the fight to end systemic racism through its company and policy engagements.
- The Barclays shareholder resolution earlier in the year on climate change financing did not succeed but it sent a signal nonetheless.
- A shareholder resolution was filed at Shell calling for the company to issue more concrete climate targets.
- LAPFF undertook an engagement initiative with banks and insurers to understand their approach to climate. They found that property and casualty insurers will feel the effects of climate risk worse than health and life insurers but one company suggested that this effect would equalise in a decade's time. Much of the consideration on climate risk has been on how climate change affects the business rather than how their products might affect climate change adaptation.
- Progress on engagement with ArcelorMittal, claims LAPFF

- There is slow progress on high risk tailings dam engagement. LAPFF has been the community liaison for the investor initiative on tailings dam safety
- Facebook continues to cause social and governance concerns. LAPFF issued a voting alert recommending members vote in favour of shareholder proposals on equal voting rights, an independent chair, majority voting for directors and nominating a board member with expertise in human rights
- LAPFF met with Chipotle (fast food company) representatives on the measurement of scope three carbon emissions, particularly in the protein supply chain
- LAPFF consulted with the Financial Conduct Authority (FCA) expressing strong support for mandatory carbon emissions reporting and support for TaskForce on Climate-Related Disclosure (TCFD) recommendations. The Forum wrote a letter to the US Securities and Exchange Commission (SEC) requesting that they require country-by-country tax reporting
- Online Annual General Meetings (AGMs) have failed LAPFF's expectations on transparency and stakeholder participation

5.47. A total of 5,933 resolutions were voted upon across 352 meetings in the quarter. The vast majority of meetings occurred in the UK. There were no notable oppose vote results, where the oppose result is at least 10%. By category, the annual reports were opposed more than for (567:207), as with executive pay scheme (58:16). Directors were approved more than they were opposed (2023:579) and the same goes for share issue/re purchases (638:463) along with dividends (138:1).

5.48. <u>The committee noted the report and the Chair wanted there to always be officer attendance at the LAPFF meetings.</u>

<u>Business Plan</u>

5.49. This report updated the Committee on future business items and training attended and opportunities. The members attended a training session on longevity organised by Club Vita.

5.50. <u>The committee noted the report.</u>

6. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES

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

7. COMMENTS OF THE BOROUGH SOLICITOR

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