

Pensions Sub-Committee Minutes

Tuesday 4 September 2018

PRESENT

Committee members: Councillors Iain Cassidy, Asif Siddique and Matt Thorley

Co-opted members: Michael Adam

Officers: Phil Triggs (Director of Treasury and Pensions), Timothy Mpofu (Pension Fund Manager) Sian Cogley (Finance Graduate Trainee) and Amrita Gill (Committee Co-ordinator)

Guests: Kevin Humpherson (Deloitte) Jennie Baruxakis and Aled Jones (FTSE Russell)

1. **MINUTES OF THE PREVIOUS MEETING**

RESOLVED

The minutes of the meeting held on 23 July 2018 were approved and signed by the Chair.

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2. **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Rebecca Harvey and Matthew Hopson (Strategic Investment Manager, Pensions)

3. **DECLARATIONS OF INTEREST**

There were no declarations of interest.

4. **DRAFT PENSIONS BOARD MINUTES**

The minutes of the meeting held on 27 June were noted.

5. PENSION FUND QUARTERLY UPDATE PACK

Kevin Humpherson (Deloitte), presented the report for the quarter ending 30 June 2018. He noted that there were no significant changes to report and welcomed any questions from the Committee.

Michael Adam asked why the Partners Group – multi asset credit fund had underperformed. Kevin Humpherson said that this was predominately due to timing and explained that the Fund's 3-year investment period ended in July 2017, therefore any investments released had been repaid to investors. As a result, the distribution rate had increased over the last year with two further distributions made during the second quarter to June 2018. There were no further risks associated with this fund and overall Deloitte were satisfied with the Fund's mandate.

Councillor Matt Thorley asked for further clarification around the current position of the M&G – inflation opportunities fund. In response Kevin Humpherson explained that the Fund's yields had fallen significantly and the manager was expecting to increase the exposure to long lease property, therefore this had created an overlap with the Fund's long lease property mandate with Standard Life Investments. Based on the difficulties associated with the Fund, he advised that the Committee may wish to consider whether there were options for all or part of the Fund's allocation which offered at least a degree of "inflation proofing". The Chair requested that officers explored alternative opportunities and for a report to be brought to the next meeting.

Action: Phil Triggs

RESOLVED

That the Sub-Committee noted the report.

6. CARBON EXPOSURE AND EQUITY STRATEGY

Aled Jones (FTSE Russell) gave a presentation on sustainable investment and outlined the following key areas:

- FTSE Russell was an innovator in sustainable investment since 2001 and encouraged companies to increase their Environment, Social and Governance (ESG) exposure.
- Maintained two core data models: ESG ratings and Green Reserves.
- By splitting data into these two dimensions users could determine more specifically whether to target ESG issues related to (operational) risk or (product) opportunities.
- Provided an overview of the sustainable investment framework and summarised the FTSE all-world climate index performance.

The Chair asked if FTSE Russell were working with other Local Authorities. Aled Jones said that they had been working in collaboration with the HSBC Bank pension scheme since 2016, to generate a future world fund. Furthermore, they were in ongoing discussions with other Local Government Pension Scheme funds to develop and implement suitable strategies.

Michael Adam asked for further clarification on the difference between climate index and balance factors in relation to back tested performance. Aled Jones explained that the main difference for smart beta indexes was that it incorporated 4 different balanced factors. The approach was similar to combining the indexes with the market capitalisation starting point, however in addition included the derived factors. In relation to the back tested data, green revenue data was derived and put together by FTSE Russell, however a third-party organisation provided the emissions and reserves data.

Michael Adam asked if the factor exposure was consistent. In response Aled Jones said that the back-tested performance was based on the same methodology that was in effect when the index was officially launched. Furthermore, a dedicated research team was assigned to work on a methodology to derive the data and tilt methodology looked to give the greatest possible exposure to the factor of choice. Factors needed to be balanced more frequently to maintain a level of consistency. Furthermore, the factor weighting was determined during the methodology process and was not optimised when factors were rebalanced. He added that statistical data and performance charts including momentum would be provided to demonstrate that factor exposure was consistent.

Michael Adam said that it was important to focus on ESG approaches as well as Carbon footprint and asked if there were any opportunities of broadening the filters to expand this. Aled Jones explained that FTSE Russell had a range of different ESG indices outside of climate. Different options were being explored and they were also considering, combining the ESG and climate approach to offer additional alternatives. He explained that each fund was unique in its approach i.e. some funds were only concerned about climate change whilst some others chose a more broader approach.

The Chair asked about the cost implications to the Council if it opted for a more tailored approach. Jennie Barouxakis (FTSE Russell) explained that the standard cost was 2.5 basis points, however there would be additional implementation costs and would be happy to engage in further discussions around their pricing model.

The Chair thanked FTSE Russell for their presentation and their contributions made at the meeting.

Kevin Humpherson (Deloitte), outlined the key differences between the FTSE Russell and MSCI indexes. He explained that FTSE Russell approached the Council offering a comparable option to MSCI. In addition, FTSE Russell were overweight to companies with green revenues. Michael Adam said that although he was not against the proposals to divest against Carbon exposure, it was also vital for the Council to explore different hedging strategies. He felt that it was important for the Council to consider positioning its equities portfolio in a more defensive place in the short-term within a challenging market.

Kevin Humpherson (Deloitte), relating to page 109 of the agenda pack provided an overview of the Majedie vs Legal & General Investment Management (LGIM) benchmark analysis for carbon footprint. He explained that in comparison to LGIM, Majedie had a lower carbon footprint as a proportion of revenue generated, i.e. Majedie's portfolio was more carbon efficient. However, looking at carbon to value invested, which was a measure of the carbon footprint in a more absolute sense, LGIM had the smaller footprint.

The Chair asked what the outcome of the analysis meant for the future direction of travel for the Council's equity strategy. In response Kevin Humpherson explained that Majedie had a higher absolute carbon footprint, but its portfolio and the organisation in which it invested in was generating more revenue for every unit of carbon emissions when compared with LGIM. Furthermore, the LGIM low carbon fund in comparison with the current LGIM passive mandate, was significantly, less carbon-intensive across the board for both, less direct emissions, and indirect emissions. He said that immediate carbon divestment was not favourable at this stage and further analysis needed to be completed before a decision was made in relation to forming an equity strategy.

The Chair asked what other Local Authorities had chosen the MSCI low carbon index option and if there were any beneficial examples that could be brought to a future Sub-Committee for consideration. Kevin Humpherson said that the London Borough of Southwark had opted for the MSCI index.

Phil Triggs, Director of Treasury and Pensions explained that total divestment was rare and limited the Council's opportunities. In addition, the ability to directly engage with the company and its directors attracted most Local Government Pension Schemes. He highlighted that the Sub-Committee's key fiduciary responsibility was to manage the Fund's investments in the best interests of the beneficiary members and the Council tax payers, where the primary focus must be on generating an optimum risk adjusted return.

The chair said that he was keen to hear from LGIM and asked if they could be invited to a future meeting to explore further opportunities. Phil Triggs said that the Brunel pool could be considered as a useful example for the Council's wider strategy. He said that a paper of the strategies implemented by Brunel, as well as establishing the position of other LGPS funds would be brought to the next Sub-Committee. He said he would also invite a representative from Brunel to come and speak with the committee. In addition, Michael Adam asked for a paper to be brought on equity hedging and protection strategies.

Action: Phil Triggs

The Sub- Committee had decided to defer the decision of the transfer of choice of index to track in the global passive equity portfolio to the MSCI World Low Carbon Target Index. The aim was to explore further options and investment risks before a decision was reached.

RESOLVED

That the Sub-Committee approved the sale of the equity assets remaining in the residual Majedie Focus and Tortoise Funds and consolidation into the LGIM mandate.

7. EXCLUSION OF THE PUBLIC AND PRESS

RESOLVED

That under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

8. EXEMPT MINUTES OF THE PREVIOUS MEETING

RESOLVED

The exempt minutes of the meeting held on 23 July 2018 were approved and signed by the Chair.

9. CARBON EXPOSURE AND EQUITY STRATEGY - EXEMPT ELEMENTS

The exempt elements of the report were noted.

Meeting started: 7:00pm
Meeting ended: 8:50pm

Chair

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