24. **APOLOGIES FOR ABSENCE AND SUBSTITUTE MEMBERS**

Apologies for absence were received from Dave Knight and Alan Leak, Observers.

25. **DECLARATIONS OF INTEREST**

Councillor Hemsted declared a non-pecuniary interest as a member of the Local Government Pension Scheme. Councillors Rayner and Wheeler declared general non-pecuniary interests as recipients of the local government pension.

26. **MINUTES OF THE PREVIOUS MEETING**

The minutes of the meeting held on 13 September 2018 were approved as a correct record and signed by the Chair.
27. PUBLIC PARTICIPATION

The Chair welcomed Louis Martin of London Divest to the meeting and invited him to speak.

Disinvestment from fossil fuels - Mr Martin asked what progress had been made towards this since the commitment given by the Council in late 2016. He said that London Borough of Southwark, for example, had produced a strategy with clear examples of withdrawal, and he had not seen the same from Waltham Forest.

Officers said that since the decision, selected fund managers are less likely to be involved in fossil fuel investment. Examples may not be as specific as, say, Southwark’s. The tendency with passive investment is towards low carbon. There are specific investments related to climate change such as wind farms. The overall strategy is part of a five year plan that is moving towards disinvestment. The strategy is eighteen months into the Plan. It is not possible at this stage to give targets, given the constantly changing market environment, but there is definite progress.

Councillor Hemsted referred to major companies founded on fossil fuel who are now acquiring renewable energy enterprises and are clearly hedging their futures. Fund managers are now buying shares on this basis in the context of a 10-15 year plan. Mr Turnbull agreed, and said this was part of a general move to a reduced carbon economy, and this is reflected in pension fund investments. There is no specific policy in relation to this as yet, and the context of the CIV (collective investment vehicle) remained highly relevant.

28. EXCLUSION OF PRESS AND PUBLIC

It was noted that material circulated by Capital Dynamics in relation to the following item, and the discussion that would follow, was likely to lead to the disclosure of exempt information as defined in Part 1, Paragraph 3 of Section 100 (A-H) of the Local Government Act 1972 and Schedule 12A, as amended, on the grounds that the information is exempt as it relates to the financial or business affairs of any particular person (including the authority holding that information) and the disclosure would not be in the public interest.

The press and public were therefore excluded from the proceedings for consideration of item 4 on the agenda (Minute 29 refers), as well as Items 10 and 11 as recommended (Minutes 34 and 35), in accordance with Section 100(A) of the Local Government Act 1972 as amended.

The public were informed they would be welcome to return to the meeting when Item 5 was reached.
The Committee received a presentation from Capital Dynamics: Carolyn Skuce – Managing Director, Business Development and Simon Eaves – Managing Director – Clean Energy. The presentation slides (exempt) have been appended to the electronic version of the minutes.

Mr Eaves informed the Committee that all the windfarms in the portfolio were now fully operational, and within the UK, key milestones had been achieved. The last UK windfarm was the largest in the country and the last one to qualify for subsidies.

**Briscoe** - The three US windfarms are all much larger and are the biggest assets in the Fund, but they are also performing the worst. Briscoe, the most problematic, accounts for \(\frac{1}{6}\) of the fund. The transmission system has a capacity which once exceeded cannot accept the energy produced by the wind, and faults have become evident in the turbine equipment. Furthermore, tax equities can lead to the situation where the firms pay to generate. The problem will be solved by a new transmission system in the next 3-4 years.

The projected annual fund cash flows up to 2024 are therefore quite conservative following robust discussions with Waltham Forest Fund officers. Capital Dynamics are also seeking damages and compensation from the operators and turbine suppliers.

Mr Eaves said it was unlikely that the situation could have been prevented, but it could have been grasped and dealt with earlier – in mid-2016, although this might not have made much difference to the disappointing outcome.

Next year will see an improvement in distribution, followed by a change for the better as the Briscoe situation is resolved.

Councillor Rayner asked what impact recent changes in American policy positions had had on the situation. Mr Eaves said that the Trump administration’s preference for supporting the coal industry had led to less favourable circumstances for renewable energy, for example tariffs on solar panels. However, measures of this kind have not affected existing investments. In any case, a great deal of regulation in this area is at State rather than federal level. Mr Eaves also answered a number of technical questions in relation to grid capacity and turbine maintenance and performance.

Councillor Wheeler said that the situation disclosed a number of wrong decisions: failure to check grid transmission capacity before investment; operation and maintenance failures and the performance of the team; and no apparent consideration of storage to deal with fluctuation in the load over 24 hours. He asked what guarantee there could be that errors would not be repeated.

Mr Eaves said that the root of the problem was transmission, which was not an issue at the time of investment. Other matters were normal operational hurdles that could
be overcome, all things being equal. In the UK environment, there would also be more effective legal action and compensation.

The Chair summed up the Committee’s concerns that managers had not seen the situation developing earlier. Mr Eaves accepted these frustrations, and the suggestion that Briscoe would have been an attractive investment if these matters had been known three months earlier. However, the explanations sought changed very quickly.

Other matters

Investment in the North – Councillor Rayner noted that most UK windfarm sites were in the north of the country and asked whether they would contribute and benefit from the Northern Powerhouse. Mr Eaves said the majority were in fact in Scotland, where it is generally windier and where a more open policy exists: it is now difficult to get approval in England and Wales, and subsidies for renewal and onshore facilities are no longer available. Ms Skuce added that the facilities described were fully invested and unaffected by recent changes in regulation.

Brexit – Mr Eaves said this had not affected Capital Dynamics’ business to a great extent: European investors are reluctant to invest in the UK at present, whereas Asian investors find it more attractive, possibly by banking on the outcome of uncertainty. There a few sterling investors in sterling assets.

Source of generation – It was clarified that the place where electricity is generated counts for little in the final price: there is a small adjustment to reflect, for example, that there is less generation but greater consumption in the South.

Summary – the Chair noted that the Committee had given the issues raised close consideration for a good hour. While the events surrounding the Briscoe investment were unfortunate, he recognised that this was the only badly underperforming element in the portfolio.

The Committee thanked Mr Eaves and Ms Skuce for their patience and frankness, and acknowledged the good performance of the UK investments.

30. TRAINING - CONSIDERATIONS WHICH MAY LEGITIMATELY INFLUENCE INVESTMENT DECISION MAKING - JOHN RAISIN

The Committee received training from its Independent Advisor, John Raisin on legitimate considerations when making investment decisions. The presentation slides (copyright) have been appended to the electronic version of the minutes.

The presentation covered:

- Breadth of the role and responsibility of the Pension Fund Committee for investment issues;
- Guidance on legitimate considerations influencing investment decisions;
- The LGPS (Local Government Pension Scheme) Regulations 2016;
- Environment, Social and Governance (ESG) issues
- Financial Return as ‘predominant concern’;
- Opinion of Nigel Giffin QC on the duties of Administering Authorities

The Chair thanked Mr Raisin for a clear and concise explanation.

The presentation led to a discussion in which the following points were made:

Councillor Rayner suggested that the guidance and Counsel’s opinion turned a moral obligation into a legal and financial duty. Mr Raisin said that in practice it chiefly underlined that a local authority could not use its pension fund to support its policy objectives, and that the scheme must be run for all employers and scheme members concerned, and not just the council’s.

Mr Turnbull added that this doctrine did not preclude involvement in matters that were also policy objectives, but that there must be an absolutely sound investment reason for doing so. In this connection Members asked about investment in social housing, and in particular temporary accommodation. It was noted that other local authorities have approached the London CIV in this connection with a view to creating an investment vehicle with this in mind. The Committee expressed interest in this and asked to be kept informed of developments.

31. FUNDING STRATEGY STATEMENT REVISION

Consideration was given to a report of the Strategic Director of Finance and Governance and the Pensions and Treasury Manager.

Debbie Drew introduced the report which explained how and why the Funding Strategy Statement had been revised to take account of The Local Government Pension Scheme (Amendment) Regulation 2018.

Decision

The Committee agreed the Revised Funding Strategy Statement attached at Appendix 1 to the report.


Consideration was given to a report of the Strategic Director of Finance and Governance and the Pensions and Treasury Manager.

Debbie Drew briefly introduced the report, which highlighted that the Fund was rated as ‘amber’ as its funding level is in the bottom 10 per cent. Following a review the Government Actuary was satisfied that the Fund’s deficit recovery plan was sufficient at this time to work towards addressing the Fund’s deficit.
Jo Holden reassured the Committee that of many aspects that could have been flagged, this was the only one. The fact that Members were fully aware of this and kept themselves abreast alleviated her concerns.

**Decision**


33. **BUSINESS PLAN REVIEW 2017-18 AND BUSINESS PLAN 2018-2020**

Consideration was given to a report of the Strategic Director of Finance and Governance and the Pensions and Treasury Manager.

Debbie Drew introduced the report outlining the Fund’s Business Plan, which would provide the objectives and the Fund’s targets for the coming year and the following two-year period. The Committee review and update these on an annual basis. If during the year other objectives become apparent, these would be added to the plan and approved at the next available meeting.

**Training Plan** - The Chair asked about the implementation of a training plan for the Committee. Mrs Drew said she would bring this forward, and it would be updated from time to time.

**Actuary** – Members welcomed the Chair’s suggestion that the actuary be invited to a future meeting.

**Decision**

The Committee

(a) approved the Pension Fund Business Plan Review for 2017-2018 as at Appendix 1 to the report;

(b) approved the Business Plan Objectives for the period 2018-2020, as at Appendix 2 to the report;

(c) asked for an updated annual training plan; and

(d) requested that the Fund’s Actuary be invited to a future meeting.

34. **INVESTMENT STRATEGY REPORT**

Consideration was given to a report of the Strategic Director of Finance and Governance and the Pensions and Treasury Manager.

Debbie Drew introduced the report, providing an update of the equity protection strategy and related investment movements, along with an update in relation to the UK equity allocation. The report also outlined the transition to the London CIV (Collective Investment Vehicle) of the Fund’s Global Equity allocation.
Equity protection - The Chair welcomed Peter Gent of Mercer to the meeting. Mr Gent provided a recap and overview of the proposed equity protection strategy implemented through a total return swap (TRS) supported by BNP Paribas. LGIM will run the collateralisation process and infrastructure for the protection strategy. The collateral to back the strategy will come from spreading the overweight across equity so that not all the risk is on one place.

Since the higher level decision in September 2018, developments have seen a rise in interest rates in the US, and therefore an underweight in these asset classes. Cash has become overweight as bonds have gone down, and the emphasis will be on good governance to ensure money circulates effectively.

At present therefore the options are: passive investment management, which could lead to credit exposure; or holding cash. Circumstances provide a good opportunity to hold collateral in cash as the market plays out, allowing a restructure over asset classes.

Jo Holden added that the suggestion of a cash holding may appear unusual to the Committee, but this may not be for the long term, according to what happens to bonds (and it is not for the Fund to ‘time the market’), and will maintain the funding level for the equity protection strategy, and notwithstanding the opportunity cost.

CIV Considerations - Councillor Rayner voiced some frustration at what the Fund could not do unless it went into the LCIV (London Collective Investment Vehicle), and then seeing global equity allocated to the CIV anyway. Was the option something of a false one of either being in step with the CIV, or losing autonomy? Mr Turnbull stressed that the Fund was not losing its autonomy by being a shareholder in the CIV. However, the Secretary of State expects there to be a good reason to invest outside the CIV. This in effect justified the disinvestment from JO Hambro. In this instance, it is likely that using the Fund for equity protection would count as a good reason.

Decision

The Committee:

(a) agreed to the recommendation from Mercer to hold the collateral in the second option as discussed in 3.3 of the report;

(b) agreed the asset movements to rebalance the Global equity portfolio and free up the cash for the Equity Protection Strategy as set out in paragraph 3.8 of the report;

(c) agreed to defer the decision to move the UK equity allocation to the London CIV to 2019 as set out in paragraph 3.7 of the report; and

(d) noted the post transition report attached in appendix 3 to the report.

35. PERFORMANCE REPORT

Consideration was given to a report of the Strategic Director of Finance and Governance and the Pensions and Treasury Manager.
Debbie Drew introduced the report, presenting performance to the quarter ended 30 September 2018. It also reviewed the current sums invested against the various asset classes the investment strategy and considered the need for rebalancing considered.

As at 30 September, the Pension Fund investments were valued at £931.1m, which is an increase of £3.8m since the previous quarter. Compared with the aggregate benchmark increase of 1.7% the fund increased by 0.3% and has under-performed the benchmark by 1.4% in the quarter.

Members felt that performance had been bumpy. It was acknowledged that the Fund had experienced two Brexit ‘bumps’ but this should not overshadow other forces apart from domestic political turbulence. Investors must not be blinded to global factors such as US protectionism and the rise of China. Mr Gent reminded the Committee that in all circumstances, in order to generate income it is necessary to take risks. However, there was no doubt that the high proportion of UK equities in the Fund and the falling pound meant that there would be a hit, no matter what the outcome.

Decision

The Committee noted the overall performance of the Pension Fund as well as that of individual managers.

The meeting closed at 9.15 pm

Chair’s Signature

Date
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