

Pension Committee Agenda



To: Councillor Andrew Pelling (Chair)
Councillor Patricia Hay-Justice (Vice-Chair)
Councillors Simon Brew, Simon Hall, Maddie Henson, Yvette Hopley,
Dudley Mead, Wayne Trakas-Lawlor, Gill Driver, Peter Howard and
Isa Makumbi

Reserve Members: Jamie Audsley, Robert Canning, Sherwan Chowdhury,
Luke Clancy, Pat Clouder, Badsha Quadir and Donald Speakman

A meeting of the **Pension Committee** which you are hereby summoned to attend,
will be held on **Tuesday, 5 December 2017 at 10.00 am** in **Council Chamber,
Town Hall, Katharine Street, Croydon CR0 1NX**

JACQUELINE HARRIS-BAKER
Director of Law and Monitoring Officer
London Borough of Croydon
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8 Mint Walk, Croydon CR0 1EA

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www.croydon.gov.uk/meetings
Monday, 27 November 2017

Members of the public are welcome to attend this meeting.
If you require any assistance, please contact the person detailed above, on the
righthand side.

N.B This meeting will be paperless. The agenda can be accessed online at
www.croydon.gov.uk/meetings

AGENDA – PART A

1. Apologies for Absence

To receive any apologies for absence from any members of the Committee.

2. Minutes of the Previous Meeting (Pages 5 - 8)

To approve the minutes of the meeting held on Tuesday 19 September 2017 as an accurate record.

3. Disclosure of Interests

In accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, Members and co-opted Members of the Council are reminded that it is a requirement to register disclosable pecuniary interests (DPIs) and gifts and hospitality to the value of which exceeds £50 or multiple gifts and/or instances of hospitality with a cumulative value of £50 or more when received from a single donor within a rolling twelve month period. In addition, Members and co-opted Members are reminded that unless their disclosable pecuniary interest is registered on the register of interests or is the subject of a pending notification to the Monitoring Officer, they are required to disclose those disclosable pecuniary interests at the meeting. This should be done by completing the Disclosure of Interest form and handing it to the Democratic Services representative at the start of the meeting. The Chair will then invite Members to make their disclosure orally at the commencement of Agenda item 3. Completed disclosure forms will be provided to the Monitoring Officer for inclusion on the Register of Members' Interests.

4. Urgent Business (if any)

To receive notice of any business not on the agenda which in the opinion of the Chair, by reason of special circumstances, be considered as a matter of urgency.

5. Adoption of Risk Management Policy (Pages 9 - 22)

6. Review of Risk Register (Pages 23 - 28)

7. Annual Report on the Progress of Asset Transfer to the London CIV (Pages 29 - 32)

8. MiFID II Compliance Requirements (Pages 33 - 36)

9. Forward Plan (Pages 37 - 40)

10. Progress Report for Quarter Ended 30 September 2017 (Pages 41 - 50)

11. Exclusion of the Press and Public

The following motion is to be moved and seconded where it is proposed to exclude the press and public from the remainder of a meeting:

“That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended.”

PART B

- 12. Part B Minutes of the Previous Meeting (Pages 51 - 52)**
To approve the Part B minutes of the meeting held on Tuesday 19 September 2017 as an accurate record.

- 13. Part B Progress Report for Quarter Ended 30 September 2017 (Pages 53 - 86)**

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Pension Committee

Meeting held on Tuesday 19 September 2017 at 10:00am in the Council Chamber, the Town Hall, Katharine Street, Croydon CR0 1NX

DRAFT MINUTES - PART A

Present: Councillor S Brew, Ms. G Driver, Councillor S Hall, Councillor P Hay-Justice (Vice Chair), Councillor M Henson, Councillor Y Hopley, Mr. P Howard, Mr. I Makumbi, Councillor D Mead, Councillor A Pelling (Chair), Councillor J Wentworth

In attendance: Elizabeth Jackson (Grant Thornton), Matthew Hallett (Pension Fund Investment Manager), Nigel Cook (Head of Pensions and Treasury), Mike Ellsmore (Chair, Local Pension Board), Daniel Carpenter (Aon Hewitt), Richard Simpson (Executive Director, Resources).

Apologies: None received.

MINUTES - PART A

A1 Minutes

The minutes of the last meeting held on Tuesday 20 June 2017 were approved as a correct record of that meeting.

A2 Disclosure of Interest

Councillor Hay-Justice disclosed that her husband paid into an academy pension scheme.

A3 Urgent Business (if any)

There was no urgent business.

A4 Exempt Items

The allocation of business between Part A and Part B of the agenda was agreed as stated.

A5 Progress Report for Quarter Ended 30 June 2017

The Head of Pensions and Treasury introduced the report to the Committee. The Committee discussed the recent meeting held with Legal and General. Arising from that meeting the committee had a

detailed discussion regarding a new, larger pooled fund that it was proposed the scheme's investments were moved to. By the nature of the larger pooled fund, low cost fx hedging would be available on that fund, if so required. After a detailed consideration of the relevant factors, there was consensus among Committee Members that the investments should be moved to the Legal and General pooled ex-tobacco fund.

The Committee also discussed whether to use Wells Fargo for the Fund's emerging markets investments, particularly in the context of further new fraud scandals at the company. After lengthy questioning on the issue, the Committee noted that officers had previously been given discretion to fulfil the Committee's asset allocation strategy as regards to emerging markets investments. The Committee agreed that an opportunity for all members to meet with Wells Fargo would be useful ahead of a further discussion at the next Committee meeting on the matter. The Chair of the Committee confirmed that a formal letter would be written to Wells Fargo to receive assurances over their governance arrangements in relation to the recent scandal.

The Committee **NOTED** the contents of the report.

A6 Scheme Advisory Board Consultations

The Head of Pensions and Treasury introduced the report and the Committee **RESOLVED** that:

- 1.1 The objectives set out in paragraph 3.4 of the report should be those adopted by the project that the Board will undertake;
- 1.2 The arrangements relating to the forum set out in paragraph 3.8 of the report are agreed.
- 1.3 That a session, such as set out in paragraph 3.9 of the report, would be helpful.

A7 Changes to State Retirement Age

The report for the item was introduced by the Head of Pensions and Treasury and the Committee **NOTED** the contents of the report.

A8 Implementation of the Markets in Financial Instruments Derivative (MiFID II)

The Head of Pensions and Treasury introduced the report to the Committee.

The Committee **RESOLVED**:

- 1.1 To note the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018;

1.2 To agree to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy;

1.3. That, in electing for professional clients status, the Committee acknowledges and agrees to forgo the protections available to retail clients attached at Appendix A;

1.4 To delegate to the Executive Director of Resources (Section 151 Officer) the authority to make applications for elected professional client status on the authority's behalf and to determine the nature of the application on either a full or single service basis.

A9 Annual Report and Local Pension Board Report

The Pension Fund's auditor from Grant Thornton introduced the audit finding report at Appendix B. The Chair of the Pension Board introduced the Board's annual report, attached at Appendix C, and the Committee requested that the Board's work on costs transparency would be made available to Committee Members.

The annual report (Appendix A) was circulated to Committee Members and introduced by the Head of Pensions and Treasury. Committee Members debated how best to communicate such Fund documents to scheme members who were not able to access the internet. The Committee agreed that the next time the membership were communicated with via letter, information on how to access such documents would be provided as part of the correspondence.

The Committee **RESOLVED** to:

1.1 Approve the submitted 2016/2017 Pension Fund Annual Report for publication on the Croydon Pension Fund's website.

1.2 Note the contents of the Audit Findings Report from the Fund's auditors.

1.3 Note the Annual Report of the Croydon Local Pension Board.

A10 Election of Pensioner Representatives to the Pension Committee

The Chair opened the item by congratulating those candidates who had been elected. A concern was raised regarding the requirements to submit voters' national insurance numbers on ballot papers. The Committee were assured that the information was needed to prove eligibility to vote and the information was destroyed after validation of the election.

The elected pensioner-side members thanked Councillors and officers for obtaining the constitutional amendments required to provide a vote on the Committee for the representatives.

The Committee **RESOLVED** to endorse the result of the ballot and to

co-opt the two candidates with the greatest number of votes onto the Committee as members for a period of four years.

A11 The Local Government Pension Scheme Advisory Board Code of Transparency

The item was introduced by the Head of Pensions and Treasury and the Committee **NOTED** the contents of the report.

A12 Local Government Pension Scheme Investment Pooling: Spring 2017 Progress Review

An update was provided to the Committee by the Head of Pensions and Treasury. Members discussed the London Collective Investment Vehicle (CIV) and the Committee requested that further information on the CIV's proposed environmental, social and governance (ESG) sub-funds be provided at the next Committee meeting.

The Committee **NOTED** the contents of the report.

A13 Exclusion of the Press & Public

Councillor Pelling proposed, and Councillor Henson seconded, that the meeting move into Part B of the agenda and thus exclude the press and public from the remainder of the meeting.

The Committee **RESOLVED** to exclude the press and public for the remainder of the meeting.

The meeting finished at 12.03pm.

Croydon Council

REPORT TO:	Pension Committee 5 December 2017
SUBJECT:	The Markets in Financial Instruments Directive: Compliance and Requirements
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Treasury
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report deals with the regulatory framework allowing the Pension Committee to be treated as a professional investor.	
FINANCIAL SUMMARY: Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

- 1.1 The Committee is asked to note the contents of this report.

2. EXECUTIVE SUMMARY

- 2.1 This report details the tests applied under the Markets in Financial Instruments Directive with particular reference to the role of the Pensions Committee in decision making.

3. DETAIL

- 3.1 The Committee decided to opt to elect to professional investor status under the Markets in Financial Instruments Directive (MiFID II) at its September meeting (Item A9 refers).
- 3.2 In order to comply with the requirements of the Directive, the authority has to pass two tests. The first relates to the size of the Fund and is a simple hurdle. The second test is qualitative and it is that test that is the subject of this report.
- 3.3 The Qualitative Test comprises 5 sections: the decision making body; expertise, experience and knowledge; investment history and strategy; understanding risk; and support for investment decisions.

- 3.4 There are four decision making models described. This Committee fits into the third category, being 'Decisions delegated to committee ... with partial delegation to an officer.' The constitution of the Council describes the arrangements in detail.
- 3.5 Expertise, experience and knowledge refers to members of the committee. There are 8 questions:
1. Are members provided with a written brief on joining the committee?
 2. Are members provided with training on investment matters?
 3. Is the attendance of members at training monitored and recorded?
 4. Average hours of training over a 12-month period?
 5. Average hours at investment conferences over a 12-month period?
 6. Are members required to complete a self-assessment with regard to their knowledge of investments?
 7. Average number of years on this committee?
 8. Any other information?

It is difficult to know how high the hurdle has been set, although the return provided for this committee has been widely deemed sufficient, but these questions are helpful in understanding what the Directive, and by extension investment managers and counter-parties, are looking for in the composition of the committee.

- 3.6 Investment history and strategy is an analysis of the asset classes that the team has invested in over a period of time. The Pension Fund investment team are able to demonstrate a breadth of experience over a substantial length of time.
- 3.7 Understanding risks relies on the Risk Management Policy and corporate and Pension Fund Risk Registers.
- 3.8 The final section relates to the support for investment decisions taken by the committee. This relies on the experience and qualifications of the Pension Fund investment team and the investment advisory and consultancy team retained by the Council. Currently this is AON Hewitt.
- 3.9 This test needs to be repeated periodically and each time the makeup of the Committee changes, key personnel change, or new investments are considered. It is not immediately clear how approaches from fund managers will be affected by this change.
- 3.10 In total, and to date, officers have applied to opt up to 17 bodies covered by the Directive. This comprises 14 fund managers, plus the Fund's investment advisors, the London CIV and the Fund's custodian. At the time of writing 10 of these counter-parties had agreed to the election to opt up. The deadline for this process is effectively the end of December 2017.
- 3.11 In summary therefore, the Committee is invited to consider the 8 questions outlined in paragraph 3.5 above, and how an adequate level of expertise, experience and knowledge can be maintained.

4 FINANCIAL CONSIDERATIONS

- 4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

- 5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

- 6.1 The Solicitor to the Council comments the Council is an Administering Authority under the Local Government Pension Scheme Regulations 2013 (the Regulations) for the London Borough of Croydon's Pension Fund.
- 6.2 The Pension Committee act as Trustee of the Pension Fund and is responsible for (1) ensuring that the Pension Fund is properly operated in accordance with the Regulations and all other relevant legislation and best practice as advised by the Pensions Regulator (2) adopting Fund specific policies concerning the administration of the Pension Fund and (3) discharging its fiduciary responsibility in the best interest of the Pension Fund.
- 6.3 The Markets in Financial Instruments Directive II (MiFID II) is due for implementation on 3 January 2018. The policy statement from the Financial Conduct Authority (FCA) in respect of the MiFID II sets out rules for the implementation of the Directive.
- 6.4 The re-classification of local authorities under the MiFID II is at odds with the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016. The FCA has recognised that the reclassification of local authorities may not be in the best interests of their pension funds and has given the Council an option to opt up to "elective professional" client status subject to satisfying certain criteria. To enable the Council to obtain the best possible investments for the Pension Fund the Committee has taken up the option to opt up to "elective professional" client status. The MIFID II sets out certain tests with which the Council must comply. This report relates to the qualitative assurance test.
- 6.5 When exercising its functions in relation to the Pension Fund the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the Public Sector Equality Duty).

Approved by: Sandra Herbert Head of Litigation and Corporate Law on behalf of Jacqueline Harris-Baker the Director of Law and Monitoring Officer.

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS: None

Croydon Council

REPORT TO:	Pension Committee 5 December 2017
SUBJECT:	Forward Plan
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Treasury
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT:	
Sound Financial Management: Ensuring that the pension fund is being given appropriate guidance and direction through the governance of the Pension Committee.	
FINANCIAL SUMMARY:	
There are no direct financial consequences to this report. However the implications of decisions taken by this Committee can be significant for the Revenue Account of the Council.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

- 1.1 That the Committee note the business plan for the next year.

2. EXECUTIVE SUMMARY

- 2.1 It is recommended best practice for the Pension Committee (the Committee) to regularly review the forward plan. This report proposes a revised 2017/2018 forward plan which forms a business plan for the Committee and a draft for the year 2018/2019.

3. DETAIL

- 3.1 The forward plan below sets out an agenda for each quarterly meeting to be held in 2017/2018 and 2018/2019; however, further items may be added as required by senior officers in consultation with the Chair. There may be a need to add items in response to changing circumstances, such as any issues thrown up by the government's decision to require funds to pool assets, changes to the investment regulations or if there are further global market events requiring actions from the Committee.

3.2 As a separate matter, the Committee has decided to visit each of the portfolio's fund managers over a twelve to fifteen month cycle. This schedule will be refreshed and reported to this Committee; the list below represents the visits that have been arranged.

Wellington (Fixed interest)	29th November, 2017
Schroders (Commercial property)	14th December, 2017
Pantheon (Private Equity)	24th January, 2018
Equitix (Infrastructure)	21st February, 2018
Knightsbridge (Private Equity)	21st March, 2019

3.3 The Committee has committed to a programme of training and in part, this can be delivered by sessions following on from or preceding the business part of the meeting. The content of training will be informed by the direction of future legislation; and the choice of investment vehicles.

3.4 With the introduction of the Local Pensions Board, some issues that previously were considered by the Committee are also being addressed by that body. This includes:

- Review of strategy and policy documents such as the Funding Strategy Statement and Investment Strategy Statement;
- Key Performance Indicators;
- Engagement with stakeholders;
- ESG (Ethical, Social and Governance) and voting matters;
- Assessment of the performance of professional advisors;
- Consideration of Myners principles;
- Matters relating to fees; and
- Other matters of topical interest.

3.5 Matters relating to admission agreements, schools converting to academies and other scheme employers will be reported to the Committee on an ad hoc basis.

3.6 The Pension Committee 2017-2018 Business Plan

3.6.1 13 March 2018

- Progress report quarter ending December 2018 performance
- KPIs
- Award of contracts under the National LGPS Framework for legal services and investment advice consultancy services
- Report back from Pensions Board

3.7 The Pension Committee 2018 – 2019 Business Plan

3.7.1 5 June 2018

- Progress report quarter ending March 2018 performance
- Risk Register review
- Forward Plan review
- Review of the Investment Strategy Statement

- Review and adopt:
 - Discretion's policy for the Council;
 - Training policy for the Committee, Board and officers;
 - Communications Policy; and
 - Terms of Reference for the Committee.
- To consider the Pension Fund Audit Plan

3.7.2 18 September 2018

- Progress report quarter ending June 2018 performance
- KPIs
- Draft Annual Report
- External Auditors Report
- Local Pension Board Annual Report
- Report back from Pensions Board
- Review and adopt:
 - Policy for Employers leaving the Fund;
 - Internal Disputes Resolution Policy;
 - Breaches of the Law policy;
 - Administration Strategy;
 - Conflicts of Interest Policy (for the Pensions Board); and
 - Local Pension Board Annual Review.

3.7.3 4 December 2018

- Progress report quarter ending September 2018 performance
- Risk Register review
- Forward Plan review
- Review London CIV against Investment Strategy Statement (ISS) guidance (regulation (7) (2) d)
- Review of ESG investment principles for inclusion in ISS

3.7.4 12 March 2019

- Progress report quarter ending December 2018 performance
- Risk Register review
- Forward Plan review
- Report back from Pensions Board
- Review the ISS

3.8 This forward plan forms the business plan for the Committee. The Committee are asked to consider any changes necessary to the forward plan and subject to these, agree its adoption.

4 FINANCIAL CONSIDERATIONS

4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

- 5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

- 6.1 The Solicitor to the Council comments the Council is an Administering Authority under the Local Government Pension Scheme Regulations 2013 (the Regulations) for the London Borough of Croydon's Pension Fund.
- 6.2 The Pension Committee act as Trustee of the Pension Fund and is responsible for (1) ensuring that the Pension Fund is properly operated in accordance with the Regulations and all other relevant legislation and best practice as advised by the Pensions Regulator (2) adopting Fund specific policies concerning the administration of the Pension Fund and (3) discharging its fiduciary responsibility in the best interest of the Pension Fund.
- 6.3 The proposed Forward Plan accords with best practice and will assist the Committee with its statutory responsibilities.
- 6.4 When exercising its functions in relation to the Pension Fund the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the Public Sector Equality Duty).

Approved by: Sandra Herbert Head of Litigation and Corporate Law on behalf of Jacqueline Harris-Baker the Director of Law and Monitoring Officer.

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS: None

Croydon Council

REPORT TO:	PENSION COMMITTEE 6 December 2017
SUBJECT:	Progress Report for Quarter Ended 30 September 2017
LEAD OFFICER:	Richard Simpson Executive Director of Resources
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Treasury
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT:	
<p>Sound Financial Management: Reviewing and ensuring that the performance of the Council's Pension Fund investments are in line with their benchmark and in line with the assumptions made by the Actuary.</p>	
FINANCIAL SUMMARY:	
<p>This report shows that the market value of the Pension Fund (the Fund) investments as at 30 September 2017 was £1,113.9m compared to £1,102.1m at 30 June 2017, an increase of £11.9m and a return of 1.27% over the quarter. The performance figures in this report have been compiled from data provided by each fund manager and are quoted net of fees. Independent information and analysis on the fund managers and markets have been provided by the Fund's independent investment advisor AON Hewitt.</p>	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1	RECOMMENDATIONS
1.1	The Committee are asked to consider and note the contents of this report.

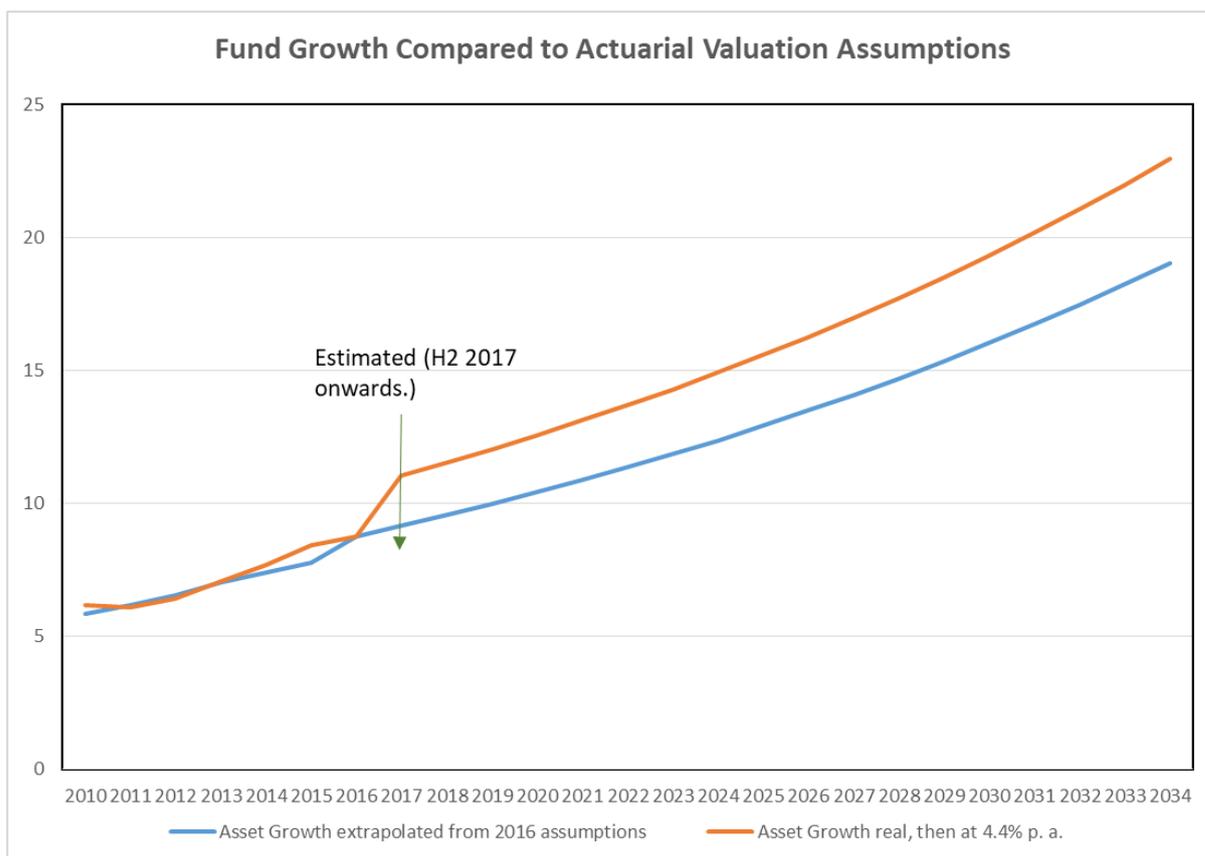
2 EXECUTIVE SUMMARY

- 2.1 This report provides an update on the London Borough of Croydon Pension Fund's (the Fund's) performance for the quarter to 30 September 2017. The report falls into three parts. Section 1 addresses performance against strategic goals. The second section considers the asset allocation strategy and how that is being applied. The third section deals with risk management and the fourth and final section summarises the recent investment manager site visit. Detailed numeric data and commentary from the Fund's advisors is included as appendices to this report for readers who are interested in that deeper analysis.

3 DETAIL

Section 1: Performance

- 3.1 The 2016 Triennial Actuarial Valuation has recommended an asset outperformance assumption of 2.2% over gilt yields, meaning an asset return assumption, otherwise described as the discount rate, of 4.4%. The valuation also assumes that the funding gap will be closed over a 22 year period. However, as a risk based model has been adopted, the recovery period is less critical. In setting the Pension Fund's investment strategy, performance is measured against a benchmark return of CPI + 4% for the whole fund. Achieving this benchmark return will ensure the investments achieve a higher return than as calculated in the valuation and assuming other assumptions remain constant, the funding gap will reduce.
- 3.2 The following graph has been compiled from this information. The blue line shows the expected track of the value of assets growing in line with the 2016 valuation assumptions. This will be adjusted after subsequent valuations. The orange line shows the actual value of the Fund to date and plots the course of growth over subsequent years using the same assumptions. This is a simplistic measure of the success of the strategy which does not take account of other variables, such as changes in demographic factors, wage inflation forecasts and other assumptions and that does not reflect changes in cash contributions nor movements in the gilt yield curve. However it is valuable as a tool to help track whether the direction of travel is in the right direction.



3.3 Details of the performance of individual components of the portfolio are summarised in Appendix A. The returns for L&G, Standard Life, Wellington and Schrodgers are calculated on a time series basis. This basis negates the effect of any cash flows made to and from a manager’s portfolio (the reason being that the timing of investments and disinvestments is not the manager’s decision) and so allows the performance of those managers to be compared fairly with their benchmarks and peers. The returns for the other managers are calculated using the Internal Rate of Return (IRR). Using the IRR considers the effect of cash flows and this is deemed appropriate for these managers as the timing of investments is determined by the manager. Due to the nature of these investments, little attention should be paid to the performance for immature investments; Temporis, GIB, Access, Markham Rae, North Sea Capital and M&G, and more attention should be made to the performance since inception for the more mature investments; Equitix, Knightsbridge and Pantheon. The whole of fund return uses the IRR as this is in line with the Actuary when calculating the valuation. It should be noted that the portfolio has been built on the premise that diversification mitigates the impact of return volatility, the performance of individual investments is less important than the return of the Fund in aggregate and certainly cannot be assessed over less than a full cycle, and the duration of the cycle will vary from asset to asset.

Section 2: Asset Allocation Strategy

- 3.4 A new asset allocation strategy was approved at the Committee meeting held on 8 September 2015 (Minute .A29/15 refers). Recognising that there are a number of factors dictating the delivery timeframe for the asset allocation, namely: the selection process and time taken to undertake due diligence; the revision of the LGPS investment regulations; and the role of the London CIV; delivering the revised asset allocation remains a work in progress.
- 3.5 This asset allocation will give rise to a portfolio which can be broken down as follows:

Equities including allocation to emerging markets.	42%	+/- 5%
Fixed interest	23%	+/- 5%
Alternates	34%	+/- 5%
<i>Comprised of:</i>		
Private Equity	8%	
Infrastructure	10%	
Traditional (Commercial) Property	10%	
Private Rental Sector (Residential Property)	6%	
Cash	1%	
	100%	

3.6 Progress towards revised asset allocation

Since the revised asset allocation was agreed £54.2m has been disinvested from global equities and £32.2m from hedge funds. This along with new cash to the fund has been invested; £19.9m in private equity, £62m in infrastructure, £25m in PRS and £16.4m in property. A further £15m has been disinvested from equities since this reporting period.

3.6.1 Private Equity – During the quarter net contributions of £0.4m were paid to our existing private equity managers. Positive returns over the quarter meant the allocation increased from 8.1% to 8.2%. No further new commitments are currently required in private equity portfolio. The allocation is considered on target.

Allocation: achieved target allocation early.

3.6.2 Infrastructure – During the quarter a net investment of £3.9m was drawn from existing managers and £11.3m was drawn from Access Capital Partners which was appointed during the quarter following completion of legal due diligence. This along with a positive contribution to returns meant the allocation percentage increased from 7.7% to 9.0%. Post quarter end legal due diligence has been completed on our second new infrastructure manager; I-Squared. We are expecting approximately £5m to be drawn by I-Squared in the next quarter.

Allocation: We are expecting to meet our target allocation by 30 June 2018 which is ahead of the original planned date of 31 December 2019.

3.6.3 Traditional Property – During the quarter £10m was transferred to Schroders, who have identified opportunities to deploy the capital. This has brought the allocation back to the 10% target.

Allocation: On target.

3.6.4 Private Rental Sector - The Fund signed a commitment of £25m to the M&G UK Residential Fund in January 2016 and during the quarter ending 31 December 2016 signed a commitment for a further £35m with M&G. The first tranche of £25m has now been fully drawn and the allocation increased from 1.8% to 2.2% over the quarter. We anticipate the second tranche drawn over the second half of 2018.

Allocation: on target to meet allocation by 31 December 2018 as planned.

3.6.5 Global Equities – The Fund's allocation to equities remained overweight at 53.4%

when compared to the previous quarter of 53.0%, a movement of 0.4 %. Equities provided the most positive gains over the quarter, although these have been much lower than experienced over the previous year. Members will be aware that the asset allocation strategy recognized that moving from the previous asset allocation would be a gradual process, driven by the availability of opportunities. It is also recognized that the preservation of returns is important. Consequently the current over-weight position in equities represents a positive benefit to the Fund. This must intentionally be a short-term position and the transfer of funds to other alternate asset classes, as described above, is part of the process of locking in some of the recent returns.

At the previous Committee meeting members agreed to transfer the equity holdings from the L&G FTSE4Good tracker fund to the L&G World Developed (Ex Tobacco) Index Fund. The reasons for doing this were to reduce concentration risk by increasing the number of stocks covered for investment, a reduction in management fee from 12bps to 6 bps and to move to a fund which is considered as fulfilling the criteria for the requirement to pool assets. In addition converting to a pooled arrangement with L&G means the passive currency hedging can be implemented fairly easily and cheaply if desired. The transfer will take place during the next quarter.

3.6.7 Fixed Interest – The Fund has moved below the lower end of the target range in its fixed income allocation and this is largely due to outperformance of other assets. Officers are exploring alternate opportunities to our traditional bond portfolio including debt managers. The London CIV is currently in the process of putting together a Fixed Interest offering which Officers are following closely.

3.7 The table below illustrates the movement in the Fund's valuation during the quarter and the current asset allocation against the target.

London Borough of Croydon Pension Fund
Fund valuation and asset allocation for the quarter ending 30 September 2017

	Valuation at 30/06/2017 £'000	Net Cashflow £'000	Gain/loss £'000	Valuation at 30/09/2017 £'000	Asset Allocation Fund Percentage	Asset Allocation Target Percentage
Equities					53.4%	42%
Legal & General FTSE4Good	584,521	-	10,150	594,670		
Fixed Interest					17.1%	23%
Standard Life	128,656	-	180	128,477		
Wellington	62,538	-	210	62,328		
Infrastructure					9.0%	10%
Access	-	11,291	241	11,049		
Temporis	9,705	2,366	30	12,041		
Equitix	48,869	1,972	900	51,741		
Green Investment bank	25,836	453	140	25,242		
Private Equity					8.2%	8%
Knightsbridge	18,903	736	424	19,215		
Pantheon	59,810	488	1,310	60,632		
Access	10,023	89	317	10,430		
North Sea	855	-	26	881		
Markham Rae	1	49	49	1		
Property					10.0%	10%
Schroders	98,944	10,000	2,456	111,401		
Property PRS					2.2%	6%
M&G	24,394	-	105	24,499		
Cash					0.1%	1%
Cash	29,008	27,671	4	1,341		
Fund Total	1,102,060	2,109	13,994	1,113,945	100%	100%

- 3.8 The Fund remains over-weight to equities and under-weight to fixed interest to the extent that the proportion in these asset classes is outside the allowable variance. Officers believe that this over-weight position continues to benefit the Fund and this scenario will persist in the short- to medium-term. However this position is not consistent with the Fund investment strategy. Officers estimate that the commitments made in Infrastructure and PRS outlined above will result in an extra £50-70m being transitioned from equities to alternatives over the next 12 months and the pension fund will have a net cash outflow of approximately £18m as a result of the advance payment of deficit contributions. The London CIV is being considered in order to correct the under-weight position in fixed interest.

Section 3: Risk Management

- 3.9 The principle risk addressed by the Funding Strategy is that returns on investment will fall below the target asset outperformance assumption to ensure that the Pension Fund matches the value of liabilities in the future. Dependent upon that are of course a number of issues.
- 3.10 The global economy will always represent a specific risk and opportunity for the Fund and will effectively be impossible to quantify or evaluate. As each asset class, investment strategy and characteristic will be impacted differently by any number of macroeconomic scenarios it is critical to ensure that the portfolio is sufficiently diversified. This will ensure that opportunities can be exploited and downside volatility reduced as far as possible.
- 3.11 In terms of the Pension Fund investment strategy in relation to the global picture, officers believe:
- The domestic US economy will continue to grow at a healthy rate.
 - China will also continue to demonstrate strong growth and this will be critical in stoking the continued expansion of emerging markets. By and large emerging market revenue account issues have been resolved.
 - The European economy is showing positive signs of growth, especially when compared to the UK.
 - While the Brexit negotiations are ongoing sterling will remain at depressed levels. Officers are continually considering the merits of currency hedging.
- 3.12 The role of Central Banks in guiding local economies and that specific impact on the global economy remains an area for concern. Interest rates and inflation both represent significant headwinds impacting on the valuation of liabilities and the investments designed to match them. Specifically Officers are concerned by the increasing threat of inflation and all infrastructure investments the Fund has committed to have an inflation linkage built into the return profile.
- 3.13 At the previous meeting the Committee agreed to move the equity holdings from the L&G FTSE4Good tracker fund to the L&G World Developed (Ex Tobacco) Index Fund. The main reason for doing this was to reduce concentration risk which had been identified. The L&G World Developed (Ex Tobacco) Index Fund covers approximately 1,800 stocks compared to the FTSE4Good which covered approximately 900 stocks.

- 3.14 The portfolio term Brexit encompasses a number of risks. Immediate concerns that the UK economy would register a shock have not materialised. However, the outcome of the snap election has done little to quieten concerns. The fall in the relative value of sterling has masked a long term issue around productivity and actually benefitted the portfolio. Other concerns may manifest themselves in the future. One issue that seems certain to impact the fund is that of passporting and the cost of accessing investment opportunities.
- 3.16 AON Hewitt, the Fund's investment advisor, have drafted a Manager Monitoring Report, a Market Review for the 3 months to 30 September 2017 and a Quarterly Investment Outlook which provides context for this risk analysis. These reports are included in the closed part of this Committee agenda.

Section 4: Investment Manager Visit

3.17

4 CONSULTATION

- 4.1 Officers have fully consulted with the Pension Fund's advisers in preparing this report.

5 FINANCIAL CONSIDERATIONS

- 5.1 This report deals exclusively with the investment of the Council's Pension Fund and compares the return on investment of the Fund against the benchmark return.

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

- 6.1 The solicitor to the Council comments.

7. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

- 7.1 This report contains only information that can be publicly disclosed. The confidential information is reported in the closed part of the agenda.

CONTACT OFFICER:

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BACKGROUND DOCUMENTS:

Quarterly reports from each fund manager (circulated under separate cover)

Appendices

Appendix A: Fund Returns

The following appendices are considered commercially sensitive:

Appendix B: AON Hewitt Manager Monitoring Report

Appendix C: AON Hewitt Market Review: 3 months to 30 September 2017

Appendix D: AON Hewitt Quarterly Investment Outlook

Appendix A

London Borough of Croydon fund returns for the period ending 30 September 2017

EQUITIES					
L&G FTSE 4GOOD	Quarter	1 year	3 year	5 year	inception
Fund	1.8%	16.4%			10.3%
Benchmark	1.8%	16.5%			10.4%
FIXED INTEREST					
Standard Life	Quarter	1 year	3 year	5 year	inception
Fund	-0.1%	-0.2%	3.3%	3.8%	4.7%
Benchmark	0.0%	2.7%	4.3%	4.5%	5.0%
Wellington	Quarter	1 year	3 year	5 year	inception
Fund	-0.3%	-3.3%	5.5%	4.1%	6.5%
Benchmark	-0.2%	-2.7%	5.8%	4.5%	6.3%
INFRASTRUCTURE					
Equitix	Quarter	1 year	3 year	5 year	inception
Fund	1.9%	9.6%	12.9%	21.6%	14.9%
Benchmark	1.4%	8.0%	6.3%	6.5%	7.4%
Temporis	Quarter	1 year	3 year	5 year	inception
Fund	0.0%	-0.40%			-0.6%
Benchmark	1.4%	7.97%			7.4%
GIB	Quarter	1 year	3 year	5 year	inception
Fund	-0.5%				5.9%
Benchmark	1.4%				6.9%
PRIVATE EQUITY					
Knightsbridge	Quarter	1 year	3 year	5 year	inception
Fund	-2.1%	4.1%	14.9%	16.9%	13.3%
Benchmark	1.4%	8.0%	6.3%	6.5%	7.1%
Pantheon	Quarter	1 year	3 year	5 year	inception
Fund	2.2%	16.6%	18.5%	16.1%	13.1%
Benchmark	1.4%	8.0%	6.3%	6.5%	7.2%
Access	Quarter	1 year	3 year	5 year	inception
Fund	3.3%	1.6%			9.3%
Benchmark	1.4%	8.0%			7.4%
Markham Rae	Quarter	1 year	3 year	5 year	inception
Fund	0.0%				
Benchmark	1.4%				
North Sea Capital	Quarter	1 year	3 year	5 year	inception
Fund	0.0%				
Benchmark	1.4%				
PROPERTY					
Schroders	Quarter	1 year	3 year	5 year	inception
Fund	2.4%	8.8%	8.2%		10.1%
Benchmark	2.4%	9.3%	8.9%		9.4%
PROPERTY PRS					
M&G	Quarter	1 year	3 year	5 year	inception
Fund	0.43%				-3.09%
Benchmark	2.25%				5.94%
Total Fund					
	Quarter	1 year	3 year	5yr	inception
Fund	1.27%	10.95%	11.50%	10.82%	8.18%
CPI + 4%	1.18%	6.97%	5.25%	5.53%	6.43%

Returns are net of fees and annualised apart from for the last quarter

Returns for Equity, Fixed Interest and Property Funds are calculated on a time weighted basis.

Returns for Infrastructure, Private Equity, Property PRS funds and the Total return are calculated on an Internal rate of return basis.

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