

## **PENSIONS COMMITTEE**

**24 July 2018**

**Subject Heading:**

**INVESTMENT STRATEGY – UPDATE –  
REAL ASSETS IMPLEMENTATION**

**CLT Lead:**

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Investment Strategy Implementation**

**Policy context:**

**Financial summary:**

**In the region of £135m to fund Real  
Asset mandate and to rebalance equity  
exposure**

**The subject matter of this report deals with the following Council  
Objectives**

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

### **SUMMARY**

This report includes an update on the progress of the implementation of the Investment Strategy, focussing on setting out a process for implementing the Fund's longer term strategic allocation to Real Assets

<b>RECOMMENDATIONS</b>
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That the Committee is asked to:

1. Note Hymans report on Real Assets: Implementation issues attached as **Appendix A (exempt)**, for full details and supporting rationale to support the recommendations.
2. Agree that the new Real Assets mandate will be funded from internal cash and the Multi-asset mandates, initially through disinvestment from the GMO mandate, with this disinvestments being split between:
  - a. JP Morgan (£30m)
  - b. LGIM Emerging Market Equity Fund (£17.5m) replacing the lost exposure from the GMO mandate, and
  - c. Cash (£17.5m), providing a temporary buffer to fund further capital calls.
3. Agree that the cash allocation be invested in a suitable vehicle either with Legal and General Investment Management (LGIM) or with the Fund's custodian (State Street)
4. Agree that further consideration be given to the overall structure of the Fund's equity allocation, including consideration of the LGIM Future World Fund, at the September Committee meeting;
5. Agree that further consideration be given to the management of currency risk associated with the Real Asset mandates at the September Committee meeting;
6. Agree that state Street (the Fund's custodian) should undertake the necessary foreign exchange transactions to convert the required capital payments from Sterling to either US Dollars or Euros, as required.

<b>REPORT DETAIL</b>
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**Background**

- a) The Pensions Committee first considered the investment strategy at the Special Pensions Committee on the 23 January 2017 and adopted the

Investment Strategy Statement (ISS) at the 28 March 2017 committee meeting.

- b) Following an independent 'health check' undertaken by Allenbridge which was submitted to the 25 June 2017 Committee meeting, members agreed a set of recommendations that would progress implementation of the investment strategy. A report submitted at the June meeting also included a timeline to deliver the short term priorities.
- c) At the 21 November 2017 meeting the ISS was reviewed and updated to reflect the decisions and progression of the implementation of the strategy, mainly to include the long term asset allocation targets.
- d) The attached paper (Appendix A) has been produced by the Fund's Investment Advisor (Hymans) and provides full details and supporting rationale to support the above recommendations.

## **IMPLICATIONS AND RISKS**

### **Financial implications and risks:**

Stafford Capital's on-boarding process has been completed and in line with the terms of the subscription agreement with Stafford Capital a payment of EUR 7,636.956.45 (£6.7m) was required to meet the drawdown deadline of the 27 June 2018.

The amount of EUR 7,636.956.45 (£6.7m) was transferred from the Pension Fund internal cash balances to Stafford Capital on the 27 June 2018.

It will be necessary to disinvest c£129m with existing multi assets mandates to fund the new Real Asset mandates. This will be in the region of £78m to fund the Real Asset mandates (balance after internal cash transfer) and approximately a further £51m to rebalance the equity allocation.

The anticipated drawdown amounts and timetable is included within the attached Hymans report.

Officers are in the process of on-boarding JP Morgan and CBRE and once completed the Fund will be required to meet any drawdown commitments.

#### **Implementation costs:**

- Based on the structure proposed in Hymans report it is expected that management costs will be reduced by c0.5bps each year (c£350,000 per annum).

## **Pensions Committee 24 July 2018**

- Advisory costs – Hymans Advisory fees will cover the advisory costs of implementing the Real Asset mandate to date and progression going forward. The final costs will be available once their involvement in the various elements is confirmed.
- Legal costs – due to the complexity of the on-boarding documentation the Fund sought external legal advice and these costs are expected to be in the region of £9k (excluding VAT).

Costs arising from the implementation of the investment strategy will be met from the Pension Fund.

### **Legal implications and risks:**

None arising directly.

### **Human Resources implications and risks:**

None arising directly.

### **Equalities implications and risks:**

None arising directly.