



**Havering**  
LONDON BOROUGH

## **PENSIONS COMMITTEE**

**20 July 2021**

**Subject Heading:**

**INVESTMENT STRATEGY REVIEW  
UPDATE**

**SLT Lead:**

**Jane West**

**Report Author and contact details:**

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**Policy context:**

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Regulation 7 of the LGPS (Management and Investment of Funds) Regulations 2016 requires an administrative authority to periodically review this statement  
Implementation of the investment strategy will be met from restructuring existing mandates

**Financial summary:**

### **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 implementation of the Investment Strategy, to follow up on specific development areas identified in the Fund's investment strategy review.

The Fund's Investment Advisor (Hymans) were asked to produce a paper outlining the next steps and recommendations which are set out in Appendix A (exempt) to this report.

Appendix A of this report is exempt from publication by virtue of paragraph 3 and 5 of the Access to Information Procedure Rules set out in the Constitution pursuant to Schedule 12A Local Government Act 1972, as amended as it contains information relating to the financial or business affairs of the investment managers already appointed to the Fund and comparisons of financial information to mandates available in the markets.

## **RECOMMENDATIONS**

That the Committee is asked to:

1. Note Hymans report on the follow up on some of the development areas identified as part of Fund's investment strategy review attached as **Appendix A (exempt)**.
2. To consider and agree the recommendations and future areas of focus as set out in Section 2 and 3 of this Report.

## **REPORT DETAIL**

### **1. Background**

- a) The Pensions Committee ("the Committee") adopted an Investment Strategy Statement (ISS) at its 28 March 2017 meeting. The Fund has made good progress implementing this Strategy, focusing on individual asset classes at various stages of implementation.
- b) Subsequently the Committee agreed an updated ISS at its meeting on the 29 July 2020 (postponed from the cancelled March 2020 meeting due to the pandemic declaration made earlier that month).
- c) At the meeting held on the 1 October 2021 the Committee decided to adopt a number of recommendations and next steps suggested by Hymans as part of the on-going implementation of the investment strategy.
- d) At the meeting held on the 16 March 2021 – the Committee decided to adopt a number of recommendations and next steps suggested by Hymans as part of the on-going implementation of the investment strategy.
- e) The attached paper (Appendix A - EXEMPT) has been produced by Hymans to follow up on Multi Factor investment and Private Debt as identified from decisions made by the Committee at previous meetings set out above.

- f) This paper is exempt as it contains information pertaining to the financial or business affairs of Fund's investment managers together with comparisons made with alternative mandates in the markets.
- g) The Hymans report includes the rationale of the proposed options for consideration and next steps. Recommendations are also outlined below:

**2. Proposed recommendations:**

- a) **Multi Factor** - Recommend that the Committee invest 10% of the Fund assets in the Legal & General Investment Management (LGIM) Future World Fund, to be funded from redeeming the LGIM Fundamental Equity mandate (aka FTSE International Limited and Research Affiliates LLC (RAFI) and by rebalancing the Baillie Gifford Global Alpha overweight allocation. This fund does have some alignment with the Paris Climate Agreement.
- b) **Private Debt - Recommendation 3:** Recommend that the Committee re-allocate to the Churchill Middle Market Senior Loan Fund IV and Permira Credit Solutions V Fund. Subject to due diligence on both funds

**3. Future areas of Focus**

- a) **LCIV Low Carbon** - To give consideration to the LCIV Low carbon product as a potential replacement for the LGIM Global Market (market cap) fund once the detail of the product has been finalised. If the details are available in time then this will be submitted for consideration at the September Committee meeting.
- b) **Emerging Market Investing** - Hymans suggest a review of the approach to emerging markets investing is carried out during 2022, this remains an evolving area and the importance of companies in emerging markets as both drivers of growth and change cannot be ignored. In particular, the Environmental, Social and Governance (ESG) and climate standards can often lag Developed markets.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

The commitment of 10% to the LGIM Future World Fund equates to c£88m (based on 31 March 2021 fund values). The precise 10% amount will be determined based on fund values at the time of the account opening. The LGIM Fundamental Equity Fund as at 31 March 21 is valued at £64m and the balance will be met from the LCIV

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Baillie Gifford Global Alpha Fund. The overweight position on the Global Alpha Fund equates to c£60m

Retaining the 7.5% allocation to Private Debt equates to c£66m (based on 31 March 2021 fund values). As above, the precise amounts will be determined based on fund values at the point of investment. Both private debt mandates are newer vintages of our existing products held with both managers. The new vintages will be funded primarily by capital being returned from the prior vintages with any short term funding mismatches being met by any existing overweight allocations in the Fund.

The commercial terms for the current investments were negotiated as part of an initial project run by Bfinance (Project Monument). Based on information provided by Bfinance and confirmed by the two managers, both Churchill and Permira have offered favourable fee rates to existing Project Monument investors. Fee structures are set out in Hymans report attached as Appendix A.

Advisory costs: The advisory costs of implementing the changes made to the investment strategy and its structure will be incurred through the Investment Management consultancy services contract with Hymans. Costs are ongoing throughout implementation and will be monitored closely by Officers - the final cost will not be known until this has concluded and is dependent on the direction of strategy options taken forward by the Committee.

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

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

The changes proposed will not impact the content of the Investment Strategy Statement as they are within the parameters set out within it. Therefore there is no need to consult on the proposals. Otherwise there are no apparent legal implications of making the proposed amendments.

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

None arise directly from this report.

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

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who do not.

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Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

An EqEIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected  
None arising directly.

**BACKGROUND PAPERS**

None