

# Merton Council

## Pension Fund Investment Advisory Panel Agenda

### Membership

#### Councillors:

Cllr Owen Pritchard (Chair)  
Cllr Adam Bush (Vice Chair), replaced by Cllr Stephen Crowe  
Cllr Mark Allison

#### Officers

Tina Pickard (Pensioner Rep)  
Gwyn Isaac (GMB Union Rep)  
Caroline Holland (LBM)  
Roger Kershaw (LBM)  
Nemashe Sivayogan (LBM)  
Gary Wells (LBM)

#### Additional Attendees:

Aniket Bhaduri & Adam Briggs (JLT)  
Keith Bray (LAPFF)  
Fund Manager (RBC)

**Date:** Tuesday 2 October 2018

**Time:** 7.00 pm

**Venue:** Committee Room D, 1st floor, Merton Civic Centre, London Road,  
Morden, SM4 5DX

This is a public meeting and attendance by the public is encouraged and welcomed.  
For more information about the agenda please contact  
[Merton.PensionFund@merton.gov.uk](mailto:Merton.PensionFund@merton.gov.uk) or telephone [020 8545 3458](tel:02085453458).

All Press contacts: [press@merton.gov.uk](mailto:press@merton.gov.uk), 020 8545 3181

# Pension Fund Investment Advisory Panel Agenda

## 2 October 2018

- |    |  |         |
|----|--|---------|
| 1  | Apologies for absence  |         |
| 2  | Declarations of pecuniary interest   |         |
| 3  | Minutes of the previous meeting  | 1 - 2   |
| 4  | Quarterly Performance Review   | 3 - 6   |
| 5  | Training - LAPFF - Responsible Investments   | 7 - 24  |
| 6  | Future meeting dates<br>Future Meeting Dates:<br><br>28 <sup>th</sup> November 2018<br>27 <sup>th</sup> February 2019  |         |
| 7  | Exclusion of the public<br><br>To RESOLVE that the public are excluded from the meeting during consideration of the following report(s) on the grounds that it is (they are) exempt from disclosure for the reasons stated in the report(s). |         |
| 8  | Minutes of the previous meeting (exempt)   | 25 - 26 |
| 9  | Investment Performance Review Process (Decision Making)  | 27 - 30 |
| 10 | Quarterly Fund & Investment Mgrs Performance review (Decision Making)  | 31 - 70 |
| 11 | Presentation by Fund Managers - RBC (Information)  |         |
| 12 | Infrastructure investment proposal and recommendation - JLT Presentation (Decision Making)   |         |

### Note on declarations of interest

Members are advised to declare any Disclosable Pecuniary Interest in any matter to be considered at the meeting. If a pecuniary interest is declared they should withdraw from the meeting room during the whole of the consideration of that matter and must not participate in any vote on that matter. If members consider they should not participate because of a non-pecuniary interest which may give rise to a perception of bias, they should declare this, withdraw and not participate in consideration of the item. For further advice please speak with the Assistant Director of Corporate Governance.

### **Attendance:**

Cllr Owen Pritchard (Chair)  
Cllr Omar Bush (deputising for Cllr Adam Bush)  
Cllr Mark Allison  
Roger Kershaw (Interim Assistant Director of Resources LBM)  
Caroline Holland (CS Director LBM)  
Roger Kershaw (LBM),  
Nemashe Sivayogan (LBM)  
Gary Wells (LBM)

### **Additional Attendees:**

Aniket Bhaduri (JLT), Adam Briggs (JLT), Kevin Cullen (LCIV), Robert Hall (LCIV), Suresh Patel (EY).

## **1.0 MEETING (Part 1)**

1.1 Introductions made by Chair.

1.2 Apologies for Absence: Cllr Adam Bush, Tina Pickard (Pensioner Rep), Gwyn Isaac (GMB Union Rep)

1.3 Members Declaration of Interest – None

### **PANEL TRAINING**

JLT the fund's investment consultant updated the on the Fund's new investment strategy and delivered training on the below asset classes:

1. Private Credit –
2. Infrastructure –

## **2.0 PRESENTATION OF MINUTES OF LAST MEETING (7<sup>th</sup> March 2018)**

2.1 Agreed as true record.

## **3.0 MERTON PENSION FUND – 2017/18 STATEMENT OF ACCOUNTS AND THE ANNUAL REPORT**

3.1 SP, this was the first year of early closing (end of May). The audit was completed within the timescale, the working papers and accounts presented for audit were of a good quality. SP thanked officers for their engagement and the responses. This helped to complete the audit on time.

3.2 One recommendation around the Pension Board.

3.3 SP –mentioned that EY will issue an unqualified opinion on the pension fund accounts and annual report at the GPC on the 30 July 2018.

## **4.0 QUARTERLY PERFORMANCE REVIEW (1<sup>st</sup> January – 31<sup>st</sup> March 2018)**

4.1 The panel were presented with the summarised performance report and full GS Performance report for review.

4.2 It was noted that the Funds asset value has increased by £12m since March 2017.

## **5.0 PFAP – 2018/19 WORK PLAN**

5.1 RK and NS presented the Merton pension Fund's work plan for 2018-19. RK stated this is a training plan as well as a work programme. The work plan was approved by the committee.

## **6.0 AOB**

The Chair spoke about the importance of the Environmental social and governance (ESG) in investing and asked NS to update the Committee on Merton's approach. NS covered:

- The Merton Pension Fund's investment strategy statement which includes the fund's investment approach and decision making, it also covers the fund ESG and is applied as part of investment process at all times.
- The Merton Pension fund is a member of Local Authority Pension fund forum(LAPFF) and Pension and Life Time Saving Association (PLSA). These organisations provide collective voice on ESG issues.
- The above institutions believe being part of and engaging with organisations to make a change in their approach to ESG is the best approach.
- Merton Pension Fund is part of the London CIV pool and the pool has its own ESG policy and stewardship code. This provides an additional layer on ESG.
- The Merton pension fund has its own responsible investment policy and it can be found on the Council website.

### **FUTURE MEETING DATES:**

- 28<sup>th</sup> November 2018
- 27<sup>th</sup> February 2019

**London Borough of Merton**  
**Pension Fund Advisory Committee**  
**Date: 02 October 2018**

Wards: All

**Subject: Merton Pension Fund Performance - June 2018**

Lead officer: Caroline Holland Director of Corporate Services

Lead member: Councillor Owen Pritchard.

Contact officer: Roger Kershaw

This is a Public Document

**RECOMMENDATION**

Members are asked to note the content of this report, in particular, the market values and performance of the total fund and component portfolios for the quarter ending 30 June 2018, attribution of the results and the market environment during the period.

**1.0 PURPOSE OF REPORT**

- 1.1 To report the investment performance at total fund level, and of the individual fund managers, for the quarter to 30 June 2018. The report highlights the performance of the total Fund by asset class compared to the customised benchmark..
- 1.2 The report gives the Committee a consistent basis on which to review the performance of the Fund as at 30 June 2018 and provide information to support future actions including periodic rebalancing and review of investment strategy and investment management arrangement.

## 2.0 FUND PERFORMANCE

- 2.1 The attached Fund Analysis & Performance Report (**Appendix 1**) produced by the Fund's investment and performance consultants JLT Employee Benefits provides useful analysis and insights of the Pension Fund activities and results for the quarter to 30 June 2018.
- 2.2 Over the 3 months to 30 June 2018, total Fund assets returned 4.7% and outperformed its target by 3.4%. The Fund's total market value increased by £31.5m in the quarter, from £664.1m to £695.6m.
- 2.3 The chart below shows the total fund valuation and the movements in investments during the June quarter.

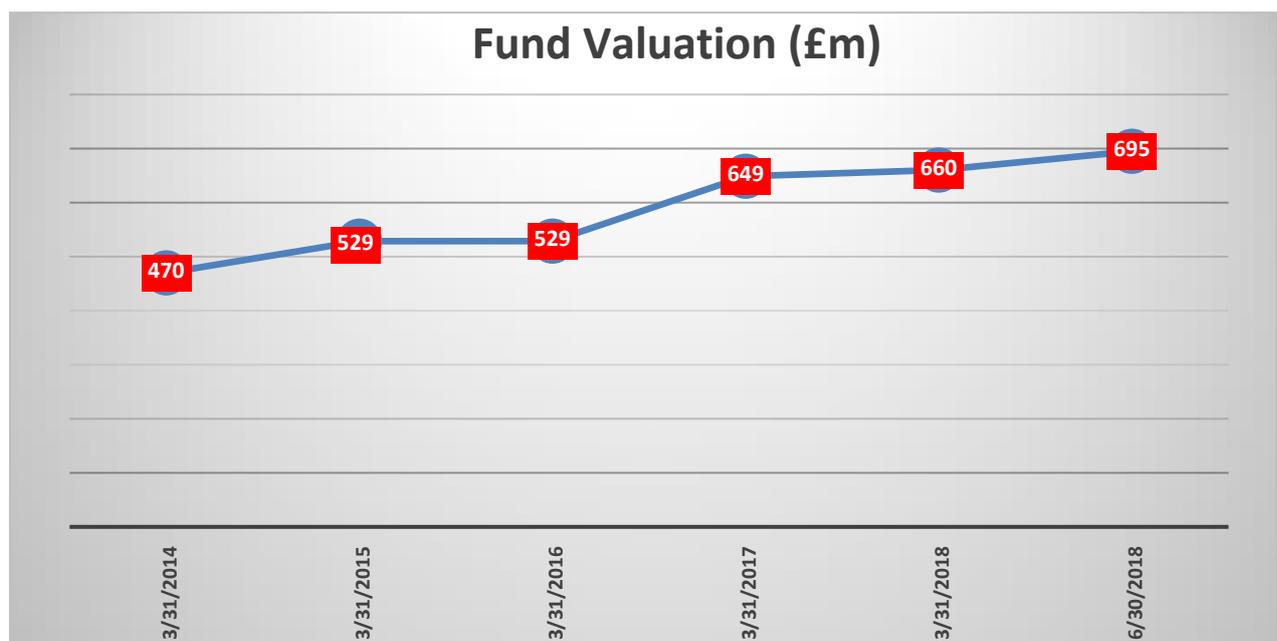
Manager / Fund	31 March 2018				30 June 2018	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS - Passive Equity	292,788	44.1	-75,000	18,882	236,670	34.0
UBS - Active Equity Fund	66,322	10.0	-25,000	3,834	45,156	6.5
LCIV RBC Sustainable Equity Fund	-	-	66,000	5,138	71,138	10.2
LCIV Global Alpha Growth Fund	-	-	66,000	4,112	70,112	10.1
Aberdeen Equity	124,804	18.8	-125,584	-	-	0.0
<b>Global Equities</b>	<b>483,914</b>	<b>72.9</b>			<b>423,076</b>	<b>60.8</b>
Aberdeen Emerging Market Equities Fund	-	-	27,584	-	27,584	4.0
<b>Emerging Market Equities</b>	<b>-</b>	<b>-</b>			<b>27,584</b>	<b>4.0</b>
LCIV Global Total Return Fund	-	-	33,000	210	33,210	4.8
LCIV Diversified Growth Fund	-	-	33,000	-530	32,470	4.7
<b>Diversified Growth Fund</b>	<b>-</b>	<b>-</b>			<b>65,680</b>	<b>9.4</b>
UBS Triton Property Unit Trust	16,327	2.5	-	304	16,631	2.4
BlackRock UK Property Fund	7,575	1.1	-	183	7,758	1.1
<b>Property</b>	<b>23,902</b>	<b>3.6</b>			<b>24,389</b>	<b>3.5</b>
<b>Growth Assets</b>	<b>507,817</b>	<b>76.5</b>			<b>540,729</b>	<b>77.7</b>
Aberdeen Bonds	152,461	23.0	-68,000	-1,597	82,864	11.9
<b>Bonds</b>	<b>152,461</b>	<b>23.0</b>			<b>82,864</b>	<b>11.9</b>
LCIV MAC Fund	-	-	68,000	-116	67,884	9.8
<b>Multi Asset Credit</b>	<b>-</b>	<b>-</b>			<b>67,884</b>	<b>9.8</b>
<b>Stabilising Assets</b>	<b>152,461</b>	<b>23.0</b>			<b>150,748</b>	<b>21.7</b>
Cash	3,858	0.6	266	-	4,123	0.6
<b>TOTAL MERTON PENSION FUND</b>	<b>664,135</b>	<b>100.0</b>			<b>695,600</b>	<b>100.0</b>

2.3 During the quarter the fund started implementing its new investment strategy and the chart below details the Fund's strategic asset allocation and the actual allocation to date.

Allocation by underlying asset class

Asset Class	Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	423,076	60.8	40.0	20.8	15-85
Emerging Market Equities	27,584	4.0	10.0	-6.0	0-20
Diversified Growth Fund	65,680	9.4	10.0	-0.6	0-20
Property	24,389	3.5	5.0	-1.5	0-10
Private Credit	-	0.0	7.5	-7.5	0-10
Infrastructure	-	0.0	7.5	-7.5	0-15
Long Gilts	14,114	2.0	-	2.0	0-5
Long Index Linked Gilts	41,552	6.0	10.0	-4.0	0-30
Corporate Bonds	27,197	3.9	-	3.9	0-10
Multi Asset Credit	67,884	9.8	10.0	-0.2	0-20
Cash	4,123	0.6	-	0.6	-
<b>TOTAL MERTON PENSION FUND</b>	<b>695,600</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>	

2.4 The following graph illustrates the Fund's market value trend over the past five years to 30 June 2018. It shows that the market value of the Fund has appreciated by £225m or 48% over the 5 years period.



### **3.0 Market Background/Outlook**

- 3.1 Over the quarter, it continued to become clear that the rate of acceleration in global economic growth has moderated from the very strong pace seen at the turn of the year. While the US remains relatively robust, there can be little doubt that the pace of expansion in Europe in particular has slowed. The US Federal Reserve (Fed) increased interest rates again in June; however, the Bank of England (BoE) remains on hold and the first raise from the European Central Bank (ECB) is now not expected until summer 2019.
- 3.2 Amidst a turbulent political background, and less positive economic news than had been the case in recent months, global equity markets still delivered a positive return over the second quarter in local currency terms. This follows a fall in the first quarter, and leaves shares worldwide up slightly over 2018 to date. In contrast to recent periods, developed market equities outperformed emerging markets. Returns to fixed income markets were close to flat overall for the quarter
- 3.3 The Appendix 1 provides more detail on the market statistics and on the assets classes the fund is invested for 3 months, 1year and and 3years.

### **4. OTHER ISSUES AFFECTING THE FUND**

- 4.1 none

### **5. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 5.1 All relevant implications are included in the report.

### **6. LEGAL AND STATUTORY IMPLICATIONS**

- 6.1 All relevant implications are included in the report.

### **7. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

- 7.1 N/A

### **8. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

- 8.1 Risk management is an integral part of designing the investment portfolio of the fund particularly in the current volatile economic environment.

### **9. BACKGROUND PAPERS**

- 9.1 JLT Employee Benefits performance report and LCIV performance report.



# Responsible Investing

## *The role of the LAPFF*

*Keith Bray  
Forum Officer, LAPFF*

2 October 2018



# Agenda

1. Setting the context
2. Corporate Governance and Corporate Social Responsibility
3. The Role of the Local Authority Pension Fund Forum
4. Approaches to activism
5. Some engagement results
6. The future

# The Significance of the Staffordshire Pension Fund and the LGPS as investors

- The Merton Pension Fund is a significant institutional investor in its own right with assets of around **£5 billion**.
- As part of the LGPS the Fund is part of the 6th largest funded pension Scheme in the world with 5.3m members and assets under management of more than **£260bn**.
- **In short, the LGPS is a very significant institutional investor both nationally and internationally**

# Fiduciary Responsibility of LGPS Pension Fund Committees

- When making investment decisions, administering authorities **must** take proper advice and act prudently. In the context of the local government pension scheme (LGPS), a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence. This approach is the standard that those responsible for making investment decisions must operate.

## **However**

- The law is generally clear that schemes **should** consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors

*(Source: Department of Communities and Local Government)*

# Corporate Governance & Corporate Social Responsibility

## **Corporate Governance**

The system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies, while shareholders' role in governance is to appoint the directors and auditors and to satisfy themselves that a proper governance structure is in place.”

**Cadbury (1992)**

## **Corporate Social Responsibility**

“Corporate governance can be defined *narrowly* as the relationship of a company with its shareholders **or more broadly**, as its relationship to society” (**Financial Times**)

This illustrates the link between corporate governance and corporate social responsibility (CSR)

# Areas of concern for responsible owners

## Environmental, Social & Governance (ESG) issues

- Environmental issues (e.g. Greenhouse gas emission, Mineral exploration, waste disposal)
- Supply chain labour standards – reputational risks
- Boardroom structures
- Directors' remuneration
- Appointment of and role of auditors
- Accounting standards (particularly as applied to banks)
- Tax transparency

# The Role of the LAPFF

The Forum is a voluntary association of LGPS funds which seeks to **protect and enhance the value of its members' shareholdings** by way of shareholder engagement, by action on corporate governance issues and by seeking to promote the highest standards of corporate social responsibility at the companies in which LAPFF members invest

# LAPFF – What we are about

In pursuing its aim to protect and enhance shareholder value the Forum

- seeks to optimise LA pension funds' influence as shareholders to promote high standards of Corporate Governance and Corporate Social Responsibility
- facilitates commissioning of research and policy analysis of issues relating to areas of concern more effectively than individual members
- provides a forum for consultation on shareholder initiatives, information exchange and discussion about investment issues
- provides a forum to consider **any** issues of common interest to all pension fund administrators and trustees (e.g. pooling of investments)

# LAPFF - Membership

Currently (79) UK Local Authority pension funds

- 29 English Counties
  - 27 London Authorities
  - 8 English/ Metropolitan/Unitary Authorities
  - 8 Welsh Authorities
  - 4 Scottish Authorities
  - 2 Passenger Transport Authorities
  - The Environment Agency
- £230 billion in value
  - **Membership open to all LGPS pension funds**

# Approaches to responsible investing and shareholder activism

- Leave it to fund managers
- Use a consultant
- Do it yourself
- Collaboration (e.g. by membership of the LAPFF)
  
- Collaboration improves effectiveness immeasurably
- Engagement with companies preferable to confrontation
- Effectiveness of 'screening' (i.e. divesting from particular companies) is questionable

# Collaboration is crucial

- Shareholder Coalition – Financial Reporting Standards  
*RailPen; Universities Superannuation Scheme;*  
*Several leading investment managers*
- NAPF (now PLSA) e.g. Disclosure of directors' pensions
- International collaboration – e.g. with US state pension funds
- **Individual funds cannot do it effectively on their own – it's simply a case of 'strength in numbers'**

# Some engagement results

YOUR M&S





- Following a period of unsuccessful engagement about Sir Stuart Rose's occupation of the roles of both Chairman and Chief Executive, the LAPFF tabled a resolution at the 2009 M&S AGM requiring the company to bring forward the separation these roles.
- The resolution was supported by 37.7% of M&S shareholders.
- Marc Bolland appointed as Chief executive – M&S share price rises 5.5% on news of appointment.
- Marc Bolland subsequently took over as Chief Executive in May 2010 and Robert Swannell took over as chairman in January 2011.



## Remuneration at Barclays

- In 2015, despite unimpressive performance, Barclays paid out more in bonuses than in dividends to investors
- The Forum lobbied aggressively about this, and eventually secured the removal of Sir John Sutherland as Chairman of the Barclays Remuneration Board



# Shell & BP

## Carbon Management



- The boards of **Shell**, and **BP** recommended shareholders support the resolutions filed by a number of LAPFF member funds in conjunction with the Aiming for A coalition of which LAPFF is part. The resolutions addressed ‘strategic resilience to 2035 and beyond’ focusing on carbon management, strategy and disclosure.
- **For a company to recommend voting in favour of a shareholder resolution is unprecedented in the UK and reflects the positive nature of engagement undertaken by the coalition. At the BP and Shell AGMs the resolution received votes of 98% and 99% in support.**

# Where are we now?

- Really beginning to make a difference
- Public support is growing
- Cross party political support
- Constant media interest
- Always more to do

# The future?

- LAPFF to remain a Fund based organisation
- Building relationship with the new LGPS Pools
- **More collaboration - more effectiveness**

Acting together responsibly –  
achieving more and protecting shareholder value!



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