



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Jacqueline Gillies, Ext: 77463

## Item 6

27<sup>th</sup> November 2019

### Investment Advisory Panel – Quarterly Report

#### Purpose of Report:

To provide the committee with a summary of the Investment Advisory Panel meeting held on Thursday 7<sup>th</sup> November 2019.

#### Recommendation:

The Committee is asked to **NOTE** the contents of this report.

Ward No(s):

Citywide: ✓

Local member(s) advised: Yes  No  consulted: Yes  No

#### **PLEASE NOTE THE FOLLOWING:**

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## **1 Background**

As a key element of its governance arrangements, the Strathclyde Pension Fund (SPF) maintains an Investment Advisory Panel (IAP). The role of the IAP, together with details of membership and meeting arrangements, is summarised in **Schedule 1**.

## **2 IAP Meeting – Thursday 7<sup>th</sup> November 2019**

**Present:** Professor Geoffrey Wood, Eric Lambert, Iain Beattie, David Walker (Hymans Robertson), Andy Green (Hymans Robertson, part meeting only), Richard McIndoe, Jacqueline Gillies, Richard Keery, Ian Jamison (part meeting only).

### **Agenda: Strategy Development Session**

- 1) Minutes from last meeting and any matters arising
- 2) Investment Strategy and Structure
- 3) Monitoring
- 4) Allocation
- 5) Governance
- 6) Manager Reviews
- 7) AOCB

## **3 Minutes from Last Meeting & any Matters Arising**

The minutes of the previous meeting were agreed to be an accurate record.

Officers updated the Panel on the progress of the global custody tender. A second draft of the Invitation to Tender had just been received from Hymans Robertson. This document will be reviewed by Officers and Glasgow City Council's Corporate Procurement Unit prior to publication. The process will conclude with a report and recommendation to the June 2020 SPF Committee meeting.

## **4 Investment Strategy and Structure**

### **4.1 Credit Default Swaps**

Good progress has been made in the implementation of the Alt 2 investment strategy, but 1% of the Short Term Enhanced Yield (STEY) allocation remains unallocated. The Panel had previously agreed that allocating 1% to a Credit Default Swap (CDS) strategy merited further consideration. Legal and General, who manage a multi-asset passive strategy for the Fund, had attended the Panel in August to set out their approach and experience of managing a CDS Fund.

The Panel received a second presentation from L&G, setting out further information and analysis. The information provided was helpful in resolving a number of questions which had arisen in the earlier presentation. The Panel agreed to continue discussion of CDS and the role an allocation might play in the Fund's strategy.

### **4.2 Partners Group: Allocation to Long Term Value Assets**

Partners Group presented a proposal to invest the remainder of the Fund's approved private equity commitments, £350m, in their long term value assets strategy. This strategy invests in private assets that are expected to generate a steady income yield in addition to capital return and holds them for the long term rather than selling them after the usual private equity holding period of 3 to 5 years.

The Panel was supportive of the concept of the long term value asset strategy, but

had concerns over the fees and the level of allocation proposed by Partners Group. Officers of the Fund will go back to Partners and request that they re-work their proposal for consideration by the Panel at a future meeting.

#### **4.3 No. 3 Fund**

Officers updated the Panel on progress of the merger of the Strathclyde No. 3 Fund into the Aberdeen City Council Transport Fund, which is administered by the North East of Scotland Pension Fund (NESPF):

- total proceeds of £30m from the sale of the Strathclyde No 3 Fund growth assets were transferred to NESPF on 2<sup>nd</sup> September 2019.
- NESPF took over No. 3 Fund pension payments from September 2019.
- NESPF expects to agree a bond investment strategy imminently.
- The No.3 Fund bond assets will be transferred either in cash or in kind to NESPF once the investment strategy is agreed.

### **5 Monitoring**

#### **5.1 Quarterly Investment Performance Review (Main Fund)**

The Panel reviewed the Northern Trust investment performance monitoring report. The Fund's return for Q3 2019 was positive (+2.1%), and above benchmark (+1.8%). Performance for the year to 30 September 2019 was positive (+5.9%), and above benchmark (+4.7%). Both absolute and relative performance had been positive over the three and five year periods.

#### **5.2 Quarterly Investment Performance Review (No. 3 Fund)**

The Panel reviewed the Northern Trust investment performance monitoring report for the No. 3 Fund. The Fund's return for Q3 2019 was positive (+6.4%) and above benchmark (+5.0%). The No.3 Fund had outperformed over one, three and five years and since inception.

#### **5.3 Manager Ratings**

Current officer assessments of the Fund's investment managers had been circulated, together with Hymans Robertson's manager update. On a Red, Amber, and Green (RAG) analysis:

- seventeen of the Fund's managers were rated green
- four rated amber and
- none red.

#### **5.4 Direct Investment Portfolio Monitoring Report**

The Panel reviewed the quarterly monitoring report for the Direct Investment Portfolio (DIP). The portfolio and most of its investments were progressing well. On a Red, Amber, Green (RAG) analysis:

- thirty six investments were rated green
- four amber and
- none red.

#### **5.5 Overseas Currency Hedge**

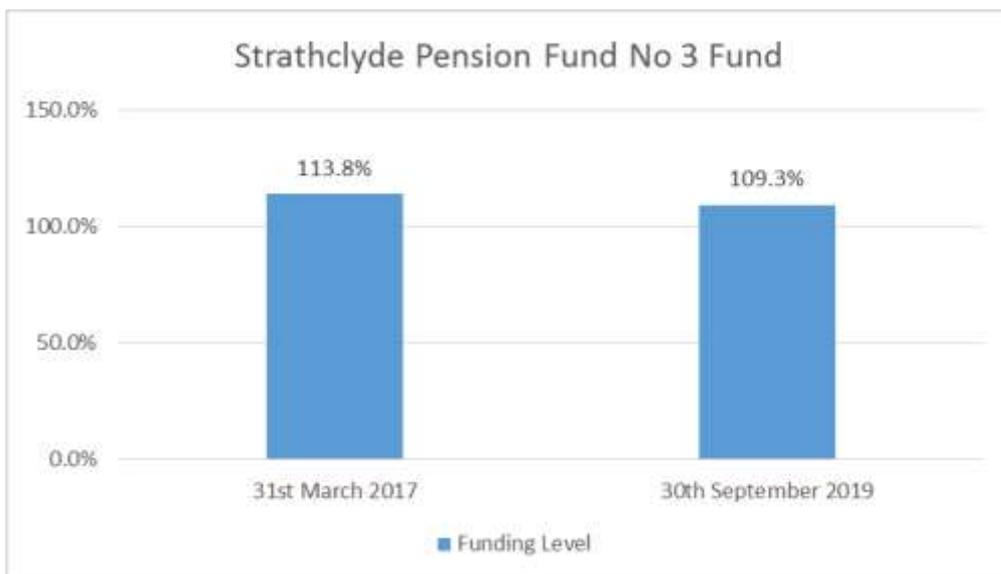
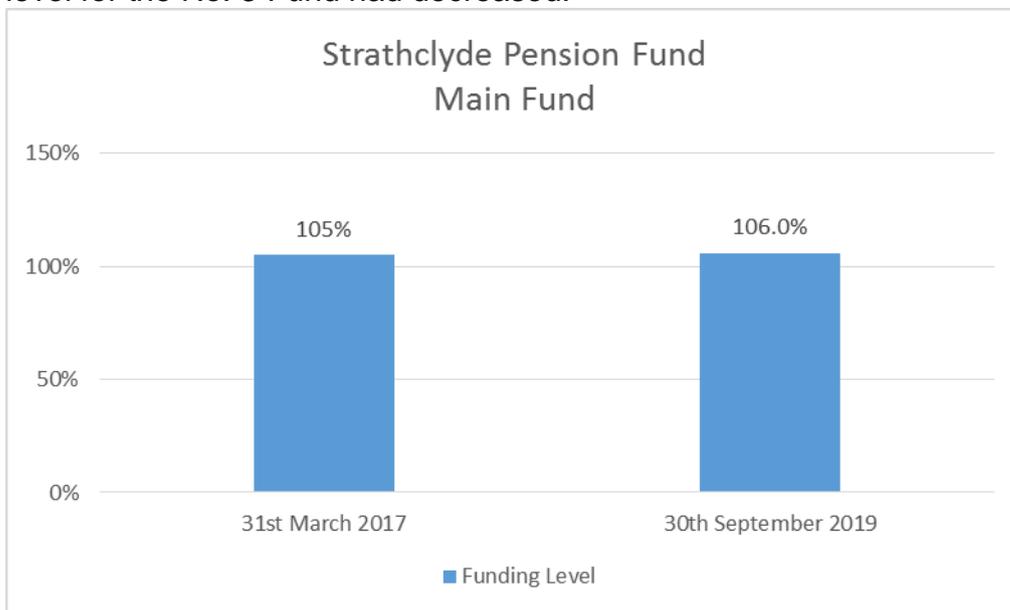
In September 2017, the Committee agreed that the Fund should hedge 33% of currency exposure arising from overseas listed equity investments by switching investments in Legal and General passive index funds to currency hedged alternatives.

The Panel reviewed a draft monitoring report that indicated the Fund's overseas hedge ratio at end September 2019 was 31.3% vs its target of 33%. Sterling had

depreciated in the period since the hedge had been implemented, meaning that currency gains on overseas investments have been reduced by hedging. The Panel will continue to monitor the impact of the hedge in order to inform review of the strategy in due course.

## 5.6 Estimated Funding Levels

Hymans Robertson provided the following estimates of the funding levels as at 30<sup>th</sup> September 2019 for the main Fund and No. 3 Fund. The funding level for the Main Fund had increased since 30<sup>th</sup> March 2017 actuarial valuation, while the funding level for the No. 3 Fund had decreased.



## 6 Allocation

### 6.1 Private Market Allocations

The Panel reviewed a schedule of estimated cash flows for the Fund's private market investment programmes - private equity, global real estate, the Direct Investment Portfolio, and private debt commitments. Totals as at 30<sup>th</sup> September 2019 were as follows.

	<b>2019 Estimate (£m)</b>	<b>2019 Actual YTD (£m)</b>
Distributions	449	298
Calls	(570)	(368)
<b>Net</b>	<b>(121)</b>	<b>(70)</b>

The projected net cash flow to private markets programmes in 2019 is an outflow of **£121m**. The Fund's private debt and direct investment portfolios are still building their investment exposure and drawdowns to these investments will make up the majority of remaining net cash outflow over the course of Quarter 4 2019. The Pantheon private equity and the Partners Group private equity and real estate programmes are mature portfolios and distributions should exceed the drawdowns required to fund more recent commitments.

The Fund's central cash balance at 30<sup>th</sup> September 2019 was **£581m**. This had increased by **£10m** since June 2019.

## **6.2 Re-balancing strategy**

The Panel reviewed a re-balancing report as at 30<sup>th</sup> September 2019.

Two global equity portfolios, Lazard and Veritas, had breached, or were close to, the upper limit of their target allocation ranges. The Fund's overall allocation to global equity mandates was 1.1% over the upper limit of its target range. The Panel agreed that the Fund should

- sell down 0.5% from each of the Lazard and Veritas portfolios; and
- hold the proceeds of these equity sales as cash in order to fund commitments to the new private debt mandates with Alcentra, Partners Group, Barings and ICG Longbow. Together these are expected to draw down c.£200m in the next 12 months.

There were a number of other breaches of asset category, mandate and portfolio allocation ranges but the Panel agreed that no additional action was required as these will be resolved as the implementation phase of the review of investment strategy progresses.

## **7 Governance**

### **7.1 Strathclyde Pension Fund Committee**

The Panel noted the draft agenda for the next committee meeting on Wednesday 27<sup>th</sup> November 2019.

### **7.2 Investment Consultant Objectives**

At the end of 2018, the Competition and Markets Authority (CMA) had published a report following its review of the investment consulting and fiduciary management markets. The report's recommendations were formalised in a final Order which was issued in June. In order to comply with the order, the Fund must establish a final set objectives for their investment consultants linked to their own longer-term investment objectives no later than 10 December 2019.

Hymans Robertson presented papers which:

- summarised the requirements of the order; and
- proposed objectives for the investment consultancy service provided by them.

The Panel suggested some changes to the draft objectives which officers will progress with Hymans with a view to agreeing finalised objectives.

It was agreed that strategic objectives should also be set for the Investment Advisory Panel. Officers will circulate a proposal for agreement in advance of the 10 December deadline.

## **8 Manager Reviews**

The following investment managers attended the Investment Advisory Panel.

- Pantheon
- Partners Group
- Legal and General
- Barings Private Debt

Performance of each of the managers was reviewed.

### **Pantheon**

The Pantheon private equity portfolio is currently valued at £1,136m - 4.9% of total Fund versus a target weight of 5.0%. Pantheon provided an update on the performance of the portfolio.

### **Partners**

The Partners Group private equity portfolio is currently valued at £772m – 3.3% of Fund versus a target weight of 2.5%. The private real estate portfolio is currently valued at £433m – 1.9% of total Fund versus a target weight of 2.5%. Partners Group updated the Panel on the performance of the Fund's private equity and real estate investments and presented their long term value asset strategy for consideration.

### **Legal and General**

The Legal and General multi asset passive portfolio is currently valued at £7,767 - 33.5% of total Fund, versus a target weight of 31.5%. Legal and General provided an update on portfolio performance and current portfolio holdings, and presented on their CDS product.

### **Barings Private Debt**

The Barings private debt portfolio is currently valued at £204m - 0.9% of total Fund versus a target weight of 1.3%. Barings provided an update on the performance of the portfolio.

## **9 AOCB**

### **9.1 Investment Advisory Panel Dates 2020**

The Investment Advisory Panel meeting dates for 2020 were confirmed as:

- 5<sup>th</sup> February
- 14<sup>th</sup> May
- 13<sup>th</sup> August
- 5<sup>th</sup> November

## **10 Policy and Resource Implications**

### **Resource Implications:**

*Financial:*                      None

<i>Legal:</i>	None
<i>Personnel:</i>	None
<i>Procurement:</i>	None
<b>Council Strategic Plan:</b>	Strathclyde Pension Fund aligns with the theme of a well governed city.
<b>Equality and Socio Economic Impacts:</b>	
<i>Does the proposal support the Council's Equality Outcomes 2017-22</i>	Equalities issues are addressed in the Fund's Responsible Investment strategy.
<i>What are the potential equality impacts as a result of this report?</i>	No specific equalities impacts.
<i>Please highlight if the policy/proposal will help address socio economic disadvantage.</i>	N/a.
<b>Sustainability Impacts:</b>	
<i>Environmental:</i>	ESG (Environmental Social and Governance), and local impacts are addressed in the Fund's Responsible Investment strategy.
Social, including opportunities under Article 20 of the European Public Procurement Directive:	ESG (Environmental Social and Governance), and local impacts are addressed in the Fund's Responsible Investment strategy.
<i>Economic:</i>	ESG (Environmental Social and Governance), and local impacts are addressed in the Fund's Responsible Investment strategy.
<b>Privacy and Data Protection impacts:</b>	None.

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### Recommendations

The Committee is asked to **NOTE** the contents of this report.

## Strathclyde Pension Fund Investment Advisory Panel Overview

### 1. Role of Investment Advisory Panel

The role of the IAP, as described in the Fund's Statement of Investment Principles, is to provide support and advice to the Strathclyde Pension Fund Committee and to carry out certain functions on behalf of the Committee.

The functions of the IAP include:

- developing investment strategy
- monitoring investment performance
- assisting in the selection and appointment of investment managers
- setting and reviewing detailed investment mandate terms and guidelines
- implementation of the passive rebalancing strategy
- monitoring cash flows
- implementation of the private markets programmes.

### 2 Membership

The IAP comprises:

- 3 independent advisors;
- a representative from the Fund's investment and actuarial consultants;
- the Director (SPFO);
- the Chief Investment Officer (SPFO) and
- the Investment Manager (SPFO).

### 3 Meeting Arrangements

The IAP meets quarterly. Meetings usually comprise a strategy development session and a series of reviews of investment performance with the Fund's investment managers. IAP members also attend Committee meetings and occasional *ad hoc* IAP meetings.