

1. Minutes of Investment Monitoring Working Party held on 12th March 2019

Attendees

Name	Initials	Organisation
Councillor Paul Doughty (Chair)	PD	WMBC
Councillor Brian Kenny	BC	WMBC
Councillor Patrick Cleary	PC	WMBC
Councillor Andrew Gardner	AG	WMBC
Councillor Paulette Lappin	PL	SMBC
Roger Bannister	RB	UNISON
Rohan Worrall	RW	Independent Advisor
Noel Mills	NM	Independent Advisor
Tim Manuel	TM	Aon Hewitt
Peter Wallach	PW	MPF
Linda Desforges	LD	MPF
Greg Campbell	GC	MPF
Allister Goulding	AGO	MPF
Adil Manzoor	AM	MPF
Owen Thorne	OT	MPF
Daniel Proudfoot	DP	MPF
Alex Abela-Stevenson	AAS	MPF
Emma Jones	EJ	MPF
Neil Gill	NG	MPF

Apologies

Name	Initials	Organisation
Councillor Cherry Povall	CP	WMBC
Councillor George Davies	GD	WMBC
Councillor Pat Hackett	PH	WMBC
Councillor Jayne Aston	JA	KMBC
Councillor Tony Jones	TJ	WMBC
Councillor John Fulham	JF	SHMBC
Councillor Ian Byrne	IB	LCC

Declarations of interest

Councillor Paulette Lappin and Mr Roger Bannister declared a pecuniary interest by virtue of being a member of Merseyside Pension Fund.

1.1 Minutes of Investment Monitoring Working Party held on 11th September 2018

The minutes were noted and agreed.

1.2 Q4 2018 review

1.2(a) Management Executive Summary

PW reported that for the period ending Q4 2018, the Fund had delivered a 1-year net return of 1.60%, compared to the benchmark return of -3.22%. The Funding position was at 95%. PW noted that Alternatives had contributed to returns substantially.

Action Points: None

1.2(b) Market Commentary

NM discussed how the decline in US equity markets had spread to all equity markets. Despite this, growth remained strong in the US economy, but this could result in higher inflation, in which case one would expect the US Federal Reserve to increase interest rates. NM felt that the main risk remained a potential US-China trade war, but that there was

evidence that this is likely to be some sort of agreement before the next round of tariff increases was scheduled to take place.

Another concern was GBP weakening, which would result in increased inflation. However, NM anticipated if clarity was reached regarding Brexit negotiations, this would provide a catalyst for the domestic UK stock market and GBP appreciation. The discussion moved on to possible Brexit outcomes and it was agreed that any deal other than 'no deal' would facilitate a rise in markets and GBP.

A discussion ensued with regard to equities; specifically, if US stock valuations remain high it would be hard to see the level of returns one had become accustomed to in recent years. NM advised that metrics suggest intrinsic value in emerging market equities. NM advised that as a means of managing the damaging impact of a 'hard-Brexit', most financial institutions had formulated contingency plans; with some moving money out of the UK.

Action Points: None

1.2(c) Strategic Adviser Update

TM focused on Mercer's report which detailed the Fund's assets and liabilities as at 31st December 2018; noting that there had been a drop in the funding level over the last 3 months due to downward moves in global equity markets; although adding that this trend reversed in Q1 2019.

LD advised that the Fund was not breaching limits pertaining to strategic and tactical asset allocations.

Action Points: None

1.2(d) Valuation and performance summary, including Monitoring Report

LD reported that active equity managers had experienced some difficulties in terms of generating superior relative returns. This was supported by Inalytics, who assist with the monitoring of the Fund's active equity mandates, highlighting that it has been a difficult year for active equity managers across the board.

LD reported that the Infrastructure portfolio had returned 11.8% over the year and advised that the Fund was exploring the introduction of benchmarks which would better reflect its relative performance. LD added that Property and Private Equity portfolios had performed well; with the latter seeing an uptick in distributions in 2018.

LD advised that the strategic investment review would look at the relative performance of active managers in greater detail, but that this has been delayed and was due to commence in the near future.

LD said the Hedge Fund portfolio's relative returns had been disappointing, in particular US-domiciled funds whose returns required hedging back to GBP. It was explained that the Goldman Sachs Alternative Risk Premia strategy had suffered; with many of the investment buckets delivering negative returns, but that conviction remained that persistent risk premia remain intact in the market, so a reversal of fortune was anticipated going forward.

PD thanked the Investment team for their work in 2018.

Action Points: None

1.3. Responsible investment

1.3(a) Responsible investment update

OT reported that the FTSE Russell-designed, SSGA-implemented decarbonisation portfolio had commenced trading; serving to reduce the amount of climate risk to the Fund and reducing the Fund's fossil reserve exposure.

A clip was shown of the FTSE Russell launch of the decarbonisation index at the London Stock Exchange.

OT explained prior to this, there has been some groundwork with a mini release at the PLSA event in Liverpool. OT reported he has spoken at a number of events as the Fund is keen that other investors look at the strategy and invest alongside MPF. Work is ongoing with Northern Trust in compiling results to better understand the mitigating factors of the index. OT stressed that although the Fund is reducing its climate risk, it is not divesting fully from carbon investments.

OT reported that the 2019 proxy voting season was underway. There had been a shareholder resolution at BP which the Fund co-filed as part of a climate action which was accepted by the management at BP. PD reported that there had been a lot of work with LAPFF which had brought about change by coordinating the exercise of its membership's voting rights.

OT reported that the Northern LGPS announced its climate policy and commitment to reporting on voting, which will offer transparency and enact the shareholders rights

directive. It also expands the scope of stewardship of liquid assets and exerts influence and ownership.

A discussion followed with regarding pooling partners and their commitment towards climate risk. The Northern LGPS is working on implementing its Responsible Investment Policy and towards pre-disclosing its voting policy which will enable advantage in scale.

The Government announced that ARGAs (Audit Risk Governance Authority) had been established.

Action Points: None

1.3(b) PIRC quarterly voting report

The above report was contained within the IMWP pack and duly noted.

Action Points: None

1.3(c) LAPFF quarterly engagement reports

The above report was contained within the IMWP pack and duly noted.

Action Points: None

1.3(d) Climate risk

A report on the decarbonisation plan was contained within the IMWP pack and duly noted.

Action Points: None

1.4 Manager presentations

1.4(a) Unigestion –Europe ex-UK equities; Emerging Market equities

Action Points: None

1.4(b) Merseyside Pension Fund – Property

Action Points: None

1.4(c) Merseyside Pension Fund - Infrastructure

Action Points: None

1.5 Notes and discussion points

None.

Date of next meeting: Thursday, 6th June 2019.