

**PENSION FUND COMMITTEE
INVESTMENT SUB-COMMITTEE**



Thursday, 12 September 2019

Democratic and Members' Services

Fiona McMillan
Monitoring Officer

10:00

Shire Hall
Castle Hill
Cambridge
CB3 0AP

**Kreis Viersen Room
Shire Hall, Castle Hill, Cambridge, CB3 0AP**

AGENDA

Open to Public and Press

1. Apologies for absence and declarations of interest

Guidance on declaring interests is available at

<http://tinyurl.com/ccc-conduct-code>

2. Exclusion of Press and Public

To resolve that the press and public be excluded from the meeting on the grounds that the agenda contains exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended, and that it would not be in the public interest for this information to be disclosed information relating to any individual, and information relating to the financial or business affairs of any particular person (including the authority holding that information)

3. Confidential minutes from the Investment Sub-Committee on 23rd May and 25th July 2019

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

4. Action Log

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

5. Cambridgeshire County Council Pension Fund Quarterly Performance Report for the period ending 30th June 2019

- separately enclosed

6. Equity Portfolio Review	5 - 12
7. Currency Hedging	13 - 18
8. Private Equity Update	19 - 26
9. Independent Investment Adviser	27 - 34
10. ACCESS Asset Pooling Update	

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

The Pension Fund Committee Investment Sub-Committee comprises the following members:

Councillor Terence Rogers (Chairman)

Councillor David Seaton and Mr John Walker Councillor Peter Downes Councillor Ian Gardener and Councillor Mike Shellens

For more information about this meeting, including access arrangements and facilities for people with disabilities, please contact

Clerk Name: Dawn Cave

Clerk Telephone: 01223 699178

Clerk Email: dawn.cave@cambridgeshire.gov.uk

The County Council is committed to open government and members of the public are welcome to attend Committee meetings. It supports the principle of transparency and encourages filming, recording and taking photographs at meetings that are open to the public. It also welcomes the use of social networking and micro-blogging websites (such as Twitter and Facebook) to communicate with people about what is happening, as it happens. These arrangements operate in accordance with a protocol agreed by the Chairman of the Council and political Group Leaders which can be accessed via the following link or made available on request: <http://tinyurl.com/ccf-film-record>.

Public speaking on the agenda items above is encouraged. Speakers must register their intention to speak by contacting the Democratic Services Officer no later than 12.00 noon three working days before the meeting. Full details of arrangements for public speaking are set out in Part 4, Part 4.4 of the Council's Constitution:

<https://tinyurl.com/CommitteeProcedure>

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**CAMBRIDGESHIRE
PENSION FUND**

INVESTMENT SUB COMMITTEE
Date: 12th September 2019
Report by: HEAD OF PENSIONS

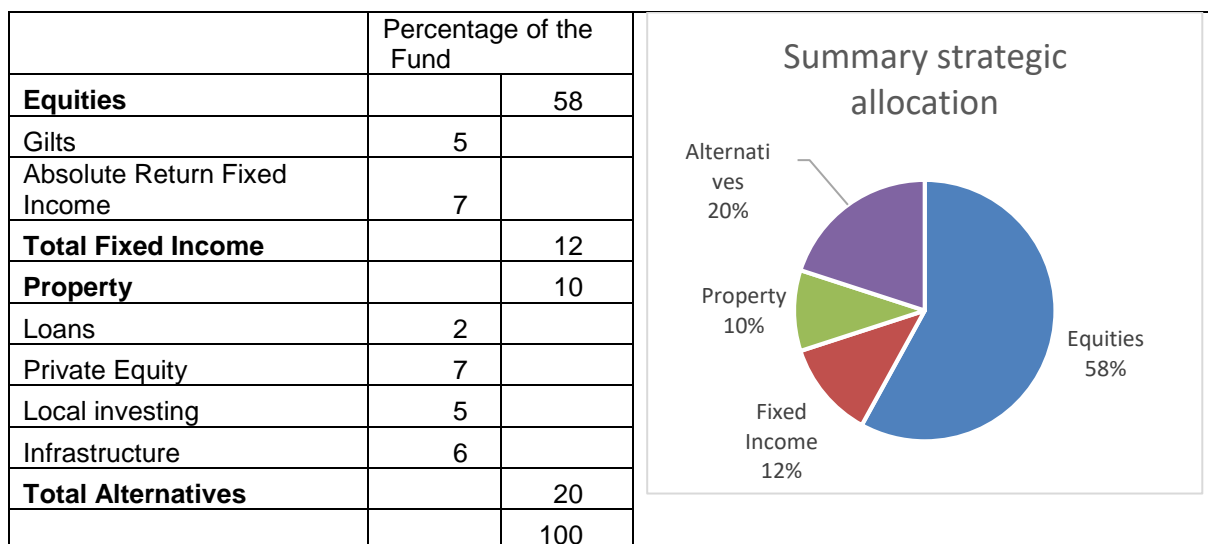
Subject	Equity Portfolio Review
Purpose of the Report	To review the Fund's equity portfolio in the context of the revised strategic allocation to ensure an appropriate balance of risk and diversification.
Recommendations	<p>That the Investment Sub Committee:</p> <ol style="list-style-type: none"> 1 Confirm that the strategic allocation to equities should be allocated: <ol style="list-style-type: none"> a. 23% to passive with UBS; b. 35% to active global managers, divided between either: <ol style="list-style-type: none"> i. Four managers equally (8.75% each), one UK and three global of which two will be Dodge & Cox and JO Hambro, or ii. Four global managers equally (8.75% each), of which two will be Dodge & Cox and JO Hambro, or iii. Four managers – three global managers of 10% each, of which two will be Dodge & Cox and JO Hambro, and one Emerging Markets manager of 5%. c. Confirm that any overweight to equities is held in UBS passive. 2 Instruct the Head of Pensions with support from advisers arrange a presentation day for the Investment Sub Committee to meet the prospective managers to ensure that they meet the Fund's strategic needs.
Enquiries to	Name: Paul Tysoe, Investment and Fund Accounting Manager Tel: 07867902436 Email: Phtysoe@Northamptonshire.gov.uk

1. Purpose of the report

- 1.1. The purpose of this report is to review the Fund's equity portfolio in the context of the revised strategic allocation to ensure an appropriate balance of risk and diversification.

2. Background

- 2.1. During 2018-19 the Investment Sub Committee (ISC) reviewed the strategic asset allocation and the resulting proposal for a diversified allocation of Equities 58%, Fixed Income 12%, Property 10% and Alternatives 20% was approved by the Pension Fund Committee in March 2019, as shown below.



- 2.2. As part of the strategic review, the ISC acknowledged that the recently overweight value of equities of nearly 70% of the Fund would be slow to diversify into Alternatives, but the ISC did not request immediate action to de-risk from equities.
- 2.3. The ISC requested more details on implementing a risk management framework to provide access to tools that allow flexibility and agility to control the Fund's risk and return profile. This risk management "overlay" is seen to be complementary to the revised strategic asset allocation.
- 2.4. In May 2019, the ISC approved parameters for implementing a Protected Equity strategy focusing on managing the risks in the passive equity mandate, and selected River & Mercantile to be appointed as Risk Manager.
- 2.5. Subsequent to agreeing the new strategy, the ISC have made further decisions to commit to new Alternatives assets including Infrastructure Equity, Infrastructure Debt and a Local Economic Development Fund.
- 2.6. This paper introduces a review by Mercer of the equity allocation and how the reduced allocation under the new strategy should be focussed, for example, taking into account the optimum number of managers to provide diversification, geographic scope, manager style as well as concentrating on the equity sub-funds currently offered or expected to become available in the ACCESS pool ACS.

3. Mercer's review of equity portfolio

3.1. The current equity portfolio comprises the following:

Manager	Region	Style	Strategic Allocation	Available through pool
Schroders	UK Active	Value	10.0%	tbc
JO Hambro	Global Active	Growth	19.5% (Note)	tbc
Dodge and Cox	Global Active	Value	12.5%	Yes
UBS	Global Passive	Passive	23.0%	Yes
			65.0%	

Note: The high allocation to JO Hambro includes the Fund's previous allocation to Emerging Markets (EM) reallocated upon termination of the EM manager.

3.2. Mercer consider how the revised strategic equity allocation of 58% could be structured and consider a number of factors as summarised in the following paragraphs.

3.3. Number of managers. Mercer propose:

3.3.1.1. Retaining the 23% passive allocation with UBS as this was retendered recently in the build of the ACCESS pool and has extremely low fees;

3.3.1.2. Allocating the remaining 35% across four active managers in order to provide diversity of style and risk.

3.4. Geographic split. The Fund's current equity portfolio has a significant overweight to the UK versus the cap weighted global opportunity set. This is offset by underweight positions in North America and Emerging Markets. Mercer propose that a solution to this would be:

3.4.1.1. Removing a slot for a dedicated UK manager and awarding all mandates to global managers who will still have the scope to invest in the UK as and when they believe it is favourable to do so;

3.4.1.2. Potentially adding a dedicated Emerging Markets exposure.

3.5. The ISC will need to discuss whether to retain a UK allocation and whether an EM exposure is desirable.

3.6. Style. The overall portfolio currently has a relatively material bias to value stocks and away from growth. This bias is likely a contributing factor to the relative underperformance of the portfolio over the medium term, as value stocks have generally underperformed and growth stocks have generally outperformed. The portfolio also exhibits a bias away from quality stocks. Balancing these tilts shouldn't necessarily drive decision making (as other factors such as the skill of the investment manager are more important), but should still feed into the decision making process.

4. Managers

4.1. Mercer have reviewed the managers available as sub-funds in the ACCESS ACS.

4.2. The Fund's existing global managers, Dodge & Cox and JO Hambro, remain highly regarded so should be retained. The Fund transitioned into the Dodge & Cox sub-fund in February 2019 and the JO Hambro sub-fund is scheduled to be available in September 2019.

- 4.3. The third and fourth slots depend upon the ISC's decision on the need for a dedicated UK manager and whether a dedicated EM exposure is required:
- 4.3.1. The Fund's existing UK equity mandate managed by Schroder may not be available as an ACCESS sub-fund. An alternative Schroder UK fund has a significantly different risk and return profile. Of the UK equity sub-funds mentioned in Mercer's report, the preferred sub-fund is managed by Majedie which is highly rated by Mercer and is approved by ACCESS as a sub-fund.
- 4.3.2. Mercer have evaluated the global equity sub-funds available and recommend further investigation into Baillie Gifford Long Term Global Growth and Longview Partners Global Equity. A third option would be Newton Global Equity. It is noted that although this manager was previously held by the Cambridgeshire Fund, there was a strategic decision to exit this fund.
- 4.3.3. In EM equity the only current sub-fund is managed by Stewart, but there are questions about the capacity of Stewart to accept sizeable new allocations and therefore may not be available for subscription.
- 4.4. Mercer's evaluation of ACCESS sub-funds suggests the following options would meet the ISC's strategic choices:

Strategic options	Retain UK	Broad Global	Global with Emerging Markets
Open Slots			
Active Slot 3	Longview or Newton	Two from Longview, Newton and Baillie Gifford	Longview or Newton (increased global active slots of 10% each to reflect EM)
Active Slot 4	Majedie or UBS		Stewart Investors (reduced allocation of c.5% to control risk)

5. Implementation

- 5.1. The next step would be for the ISC to meet each of the prospective managers. If the available options do not meet the ISC's strategic needs then it may be necessary to lobby Link to select additional sub-fund managers.
- 5.2. There is currently a deliberate overweight to equities of approximately 11% reflecting both the recent reduction in strategic allocation and the recognising that it will take time to re-allocate funds to Alternatives. It is strongly recommended that the overweight retained to fund Alternatives is held in the UBS passive mandate outside the ACCESS ACS.

6. Summary

- 6.1. Mercer's findings can be summarised as follows:
- 6.1.1. The underlying building blocks of the current equity portfolio are best-in-class. However, the existing Schroders' UK mandate may not be available in ACCESS.
- 6.1.2. There are biases in the portfolio: geographically (overweight UK, underweight US and EM), style (to value) and to sources of manager skill. Whilst these are not

unreasonable the ISC should consider if the some of these biases should be reduced to help smooth expected returns.

- 6.2. Mercer's recommendations from the review that the ISC should decide on are as follows:
 - 6.2.1. Retain the current 23% allocation to UBS passive and implement equity protection;
 - 6.2.2. Divide the remaining 35% allocation to listed equities between 4 active managers available through the ACCESS pool;
 - 6.2.3. Retain JO Hambro and Dodge & Cox as best-in-class global equity managers with complementary styles, but reduce fund manager risk with the appointment of additional fund managers.
 - 6.2.4. ISC to decide which strategic direction the portfolio should take (UK bias, global foot print or global with EM at market weight) whilst being aware of the overall style bias of the portfolio. This decision will narrow down the choice of managers (allowing for Mercer's quality screen) to three or four possibilities.
- 6.3. Following these decisions, the next step is for the ISC to meet the possible managers to assess if they fit the Fund's strategic needs. The intention would be to do this at the next ISC meeting.

7. Recommendation

- 7.1. That the Investment Sub Committee:
- 7.2. Confirm that the strategic allocation to equities should be allocated:
 - 7.2.1. 23% to passive with UBS; and
 - 7.2.2. 35% to active equity managers, divided between either:
 - 7.2.2.1. Four managers equally (8.75% each), one UK and three global of which two will be Dodge & Cox and JO Hambro, or
 - 7.2.2.2. Four global managers equally (8.75% each), of which two will be Dodge & Cox and JO Hambro, or
 - 7.2.2.3. Four managers – three global managers of 10% each, of which two will be Dodge & Cox and JO Hambro, and one Emerging Markets manager of 5%.
 - 7.2.3. Confirm that any overweight to equities is held in UBS passive.
- 7.3. Instruct the Head of Pensions with support from advisers arrange a presentation day for the Investment Sub Committee to meet the prospective managers to ensure that they meet the Fund's strategic needs.

8. Relevant Pension Fund Objectives

<i>Objective 1</i> Have robust governance arrangements in place, to facilitate informed decision-making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.
<i>Objective 3</i> Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment.
<i>Objective 5</i> Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.
<i>Objective 18</i> Put in place a Strategic Asset Allocation ensuring it is appropriately maintained taking into account the Funding Strategy.

9. Finance & Resources Implications

- 9.1. The financial and resource requirements are contained in the existing budgets and activities of the Fund.
- 9.2. Investment performance is reviewed by the ISC on a quarterly basis and where necessary appropriate action is taken to address concerns or weaknesses.

10. Risk management

- 10.1. The ISC have the Authority to review and maintain the asset allocation of the Fund within parameters agreed with the Pension Fund Committee and the authority to appoint and terminate investment managers to the Fund. In both proposing the strategy to the Pension Committee and implementing the strategy the ISC are advised by external profession Investment Consultants, Mercer Ltd.
- 10.2. The risks associated with implementing the strategy have been captured in the Fund's risk register as detailed below.

Risk register	Risk mitigated	Residual risk
Investment (Risk 3)	Investment decisions and portfolio management may not maximise returns or be performed in accordance with instructions provided.	Green
Investment (Risk 5)	Fund assets are not sufficient to meet obligations and liabilities as they become payable.	Green
Investment (Risk 11)	Mismatch in asset returns and liability movements result in increased employer contributions.	Green
Investment (Risk 15)	Failure to act upon expert advice or risk of poor advice.	Green

- 10.3. The Fund's full risk register can be found on the Fund's website at the following link:
<https://pensions.cambridgeshire.gov.uk/governance/key-documents/cambridgeshire/>

11. Communication Implications

11.1. Policy documents will be updated as appropriate and published on the Fund's website.

12. Legal Implications

12.1. Legal advice will be sought as required.

13. Consultation with Key Advisers

13.1. This paper has been produced in conjunction with the Fund's Investment Consultants, Mercer.

14. Alternative Options Considered

14.1. Included in the paper.

15. Background Papers

15.1. None.

16. Appendices

16.1. Appendix A – Mercer paper – Equity portfolio review – August 2019 (**Exempt paper**).

Checklist of Key Approvals	
Is this decision included in the Business Plan?	Not applicable.
Will further decisions be required? If so, please outline the timetable here	Yes.
Is this report proposing an amendment to the budget and/or policy framework?	No.
Has this report been cleared by Chief Finance Officer/Section 151 Officer?	Yes. Sarah Heywood.
Has this report been cleared by Head of Pensions?	Yes. Mark Whitby.
Has the Chairman of the Pension Fund Committee been consulted?	Yes. Cllr Rogers.
Has this report been cleared by Legal Services?	Yes. Fiona McMillan.

CAMBRIDGESHIRE PENSION FUND



INVESTMENT SUB COMMITTEE

Date: 12th September 2019

Report by: HEAD OF PENSIONS

Subject	Currency Hedging
Purpose of the Report	The aim of this paper is to explore options available with current managers to provide a pragmatic currency hedging solution.
Recommendations	<p>That the Investment Sub Committee:</p> <ol style="list-style-type: none"> 1. Approves the adoption of a currency hedging strategy using hedged share classes of the UBS passive mandate; 2. Approves the Head of Pensions in consultation with Mercer to agree the timing of the transfer to GBP hedged asset classes and make any arrangements necessary to implement the transfer.
Enquiries to	<p>Name: Paul Tysoe, Tel: 07867 902436 Email: phitysoe@northamptonshire.gov.uk</p>

1 Purpose of the report

- 1.1 The aim of this paper is to explore options available with existing managers to provide a pragmatic currency hedging solution.

2 Background

- 2.1 The Fund has overseas investments that are non-sterling denominated. The Fund has benefited from a weakening in Sterling for a number of years providing the Fund with gains on these overseas currency denominated assets. Whilst there may be further weakness in the coming months providing a further boost to investment valuations when measured in pounds sterling, the Investment Sub Committee may wish to consider putting in place an arrangement that can be implemented at the appropriate time to lock in some of these gains, reflecting the likelihood of a strengthening of Sterling.
- 2.2 The Fund's investment strategy was reviewed by the Investment Sub Committee (ISC) during 2018 which included discussion on the use of a risk management framework to help manage the Fund's most significant investment risks i.e. equity, long term interest

rates and inflation volatility. A paper on currency hedging was tabled at the meeting of the ISC in November 2018 but was deferred pending further work on a comprehensive risk management framework.

- 2.3 Following approval by the ISC in February 2019 for officers to work with Mercer to implement a risk management framework, at the May 2019 meeting the ISC selected River & Mercantile to be appointed as Risk Manager, initially focusing on a Protected Equity strategy.
- 2.4 This paper revisits the option for a simple currency hedging using currency hedged share classes of the Fund's passive equity funds at UBS.

3 The currency issue

- 3.1 Broadly 66% of the Fund's assets are non-sterling which comprise around 56% of unhedged global equities (both public and private) and around 10% of hedged assets held in the Schroder Strategic Bond mandate and the Loan fund managed by M&G.
- 3.2 The value of sterling is currently trading below the average pricing of the last 10 years which has provided beneficial returns and valuations on currency denominated assets which the Fund could now "lock in". Compared to a fully currency hedged position the Fund has 'gained' c. £90m over the last three years from not hedging its overseas developed market equity exposure.
- 3.3 The Fund could instruct the Risk Manager to implement a currency overlay structure but the arrangement is in its infancy and is initially focusing on Protected Equity. A simpler solution is to use an existing manager by switching to hedged share classes. Currently only UBS offers a GBP hedged share class as Dodge & Cox, whilst offering a hedged class on a standalone basis, is not available through the ACCESS sub-fund. The Fund's other global equity manager, JO Hambro, does not offer a GBP hedged asset class.

4 Background - the UBS passive mandate

- 4.1 The Fund has 20% of its strategic asset allocation in passive global equities invested with UBS. At 30 June 2019 the value of global equities of £1,900m (57.3% of the Fund assets).
- 4.2 UBS were appointed the Fund's passive provider following completion of a mini competition by the ACCESS funds in 2017, which resulted in substantial fee savings for the Fund compared to the previous provider, State Street.
- 4.3 The ISC agreed to restructure its UK and global passive allocations into a series of regional allocations and alternative beta funds with UBS which was completed in June 2018.
- 4.4 UBS also advised the ISC that for many of the passive funds on offer, a GBP hedged share class was also available which could provide a simple and inexpensive option for hedging currency exposure, which could be transacted at any month end.

5 Currency hedging

- 5.1 Hedged share classes are typically used as a risk mitigation tool rather than to make opportunistic gains on currency. It is assumed that this is the objective of the ISC rather than to actively look to make gains through taking views on future currency movements. Nonetheless, recent, levels of sterling makes the adoption of a hedging strategy at this time more beneficial than ever.
- 5.2 UBS offer hedged share classes for the majority of the sub-funds held by the Fund.
 - 5.2.1 Transition to hedged share classes would cost around 0.02% or £110k;

5.2.2 The cost of hedging would be a drag on performance of approximately 0.1% or £560,000 per annum.

- 5.3 In the context of asset pooling, the UBS passive arrangement which operates outside the Approved Contractual Scheme (ACS) allows the Fund flexibility to restructure its holdings without impacting other ACCESS funds.
- 5.4 By utilizing the hedged UBS passive funds, Mercer estimate that the exposure to foreign currency assets would be reduced from 56% to 40%. The costs noted in paragraph 5.2 are considered to be reasonable in the context of gains on currency of c. £90m over the last three years.
- 5.5 In summary, Mercer believe that the flexibility offered by UBS to provide currency hedging represents a relatively low-cost and pragmatic way of crystallising the gains that have come from sterling weakness.

6 Recommendation

That the Investment Sub Committee:

- 6.1 Approves the adoption of a currency hedging strategy using hedged share classes of the UBS passive mandate;
- 6.2 Approves the Head of Pensions in consultation with Mercer to agree the timing of the transfer to GBP hedged asset classes and make any arrangements necessary to implement the transfer.

7 Relevant Pension Fund Objectives

<i>Objective 1</i> Have robust governance arrangements in place, to facilitate informed decision-making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.
<i>Objective 3</i> Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment.
<i>Objective 5</i> Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.
<i>Objective 18</i> Put in place a Strategic Asset Allocation ensuring it is appropriately maintained taking into account the Funding Strategy.

8 Finance & Resources Implications

- 8.1 The switch to hedged share classes is expected to incur a one-off cost of around £110,000 and a drag on performance of 0.1% per annum or £560,000 based upon current holdings, but the UBS annual management charges would be unchanged. The switch to hedged share classes provides reduced exposure to foreign currency from 56% of total assets to 40% of total assets.
- 8.2 The Fund has gained approximately £90m over the last three years from not hedging its overseas developed market equity exposure. It is considered financially prudent to recommend currency hedging, as the value of sterling is currently trading below the

average pricing of the last 10 years. Therefore should Sterling strengthen the gains made to date would unwind.

- 8.3 The gain the Fund has benefited from is measured in millions against the increase annual charges in the proposal being measured in thousands of pounds. To implement hedging now should significantly benefit the Fund over time.

9 Risk management

- 9.1 The ISC have the Authority to review and maintain the asset allocation of the Fund within parameters agreed with the Pensions Committee and the authority to appoint and terminate investment managers to the Fund. In both proposing the strategy to the Pension Committee and implementing the strategy the ISC are advised by external profession Investment Consultants, Mercer Ltd.
- 9.2 The risks associated with implementing the strategy have been captured in the Fund's risk register as detailed below.

Risk register	Risk mitigated	Residual risk
Investment (Risk 4)	Fund assets are not sufficient to meet obligations and liabilities.	Amber
Investment (Risk 19)	Failure to act appropriately upon expert advice and/or risk of poor advice.	Green
Investment (Risk 23)	Investment decisions and portfolio management may not achieve the return required or be performed in accordance with instructions provided.	Green

- 9.3 The Fund's full risk register can be found on the Fund's website at the following link:
<https://pensions.cambridgeshire.gov.uk/app/uploads/2012/11/Risk-Register---Funding-and-Investment.pdf>

10 Communication Implications

- 10.1 Not applicable.

11 Legal Implications

- 11.1 Legal advice will be sought as required.

12 Consultation with Key Advisers

- 12.1 This paper has been produced in conjunction with the Fund's Investment Consultants, Mercer.

13 Alternative Options Considered

- 13.1 Included in the paper.

14 Background Papers

- 14.1 None.

15 Appendices

- 15.1 Appendix A – Mercer paper – Currency hedging – Exempt paper.

Checklist of Key Approvals	
Is this decision included in the Business Plan?	Not applicable.
Will further decisions be required? If so, please outline the timetable here	Not applicable.
Is this report proposing an amendment to the budget and/or policy framework?	No.
Has this report been cleared by Chief Finance Officer/Section 151 Officer?	Yes. Sarah Heywood.
Has this report been cleared by Head of Pensions?	Yes. Mark Whitby.
Has the Chairman of the Pension Fund Committee been consulted?	Yes. Cllr Rogers.
Has this report been cleared by Legal Services?	Yes. Fiona McMillan.

CAMBRIDGESHIRE PENSION FUND



INVESTMENT SUB COMMITTEE

Date: 12th September 2019

Report by: HEAD OF PENSIONS

Subject	Private Equity Update
Purpose of the Report	To update the Investment Sub Committee on progress with the four year programme of private equity commitments approved in June 2018.
Recommendations	That the Investment Sub Committee: <ol style="list-style-type: none"> Note the Private Equity Funds to which the Fund will subscribe in year 2 of the approved 4 year programme.
Approve	Name: Richard Perry, Pension Services Financial Manager Tel: 07717 360604 Email: RPerry@Northamptonshire.gov.uk

1. Purpose of the report

- 1.1. To update the Investment Sub Committee on progress with the four year programme of private equity commitments approved in June 2018.

2. Background –strategy for Alternative assets

- 2.1. The Fund's allocation to Alternative assets of 20%, compared to 13% previously, was confirmed in the revised Strategic Asset Allocation approved by the Pension Fund Committee on 28th March 2019. The allocation was notionally split by class of Alternative asset as shown in the table below.

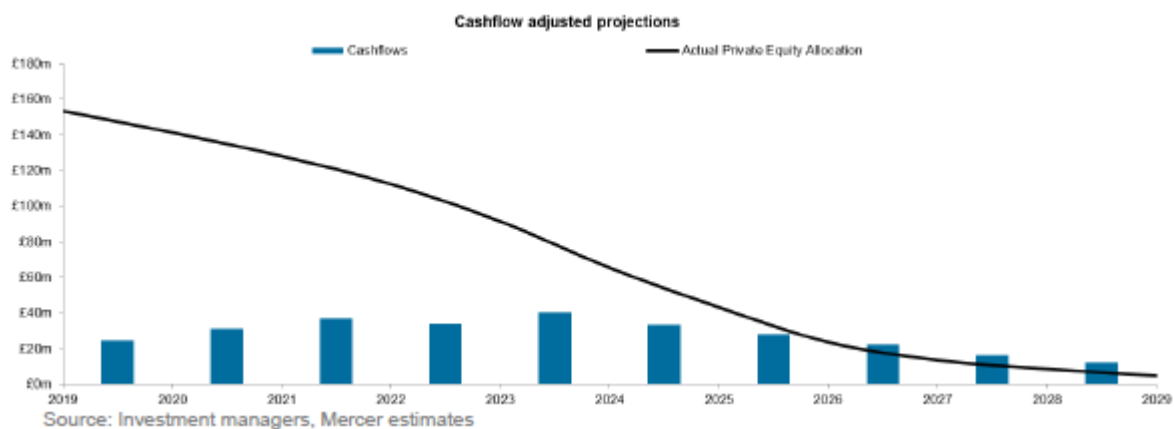
	% of the Fund
Loans	2
Private Equity	7
Local investing	5
Infrastructure	6
Total Alternatives	20

- 2.2. The notional allocation to Private Equity of 7% is an increase on the previous strategic allocation of 5% and compares to actual investments at 31 March 2019 of 4.6% (£145.7m), which comprised investments with Adams Street Partners (ASP) and Harbourvest Partners (HV) with a range of different maturities.
- 2.3. The full valuation and undrawn commitments to Alternatives at 31st March 2019 are shown below (commitments include new Funds added since 1 April 2019):-

Fund	Valuation at 31 st Mar 2019	Undrawn commitment at 31 st Mar 2019	Total at 31 st Mar 2019	Total at 31 st Mar 2019	Notional strategic allocation
	(GBPm)	(GBPm)	(GBPm)	(% of fund)	(% of fund)
Adams Street	84.5	50.1	134.6		
Harbourvest	61.2	56.6	117.8		
Total Private Equity	145.7	109.7	252.4	7.9	7.0
Loans – M & G	60.4	-	60.4	1.9	2.0
C & C Bank	81.1	-	81.1		
Cambridge Building Society	15.0	-	15.0		
East of England Economic Development Fund (Foresight)	-	50.0 *	50.0		
Total Local Investing	96.1	50.0	146.1	4.6	5.0
Infrastructure equity - Equitix	35.0	0.3	35.3		
Infrastructure equity - Partners Group	38.6	26.3	64.9		
Infrastructure equity - UBS	16.8	1.1	17.9		
Infrastructure equity - IFM	-	60.0	60.0		
Infrastructure equity - JP Morgan		61.4	61.4		
Infrastructure Debt - Allianz	12.9	15.5	28.4		
Infrastructure Debt - AMP	19.9	38.5 *	58.4		
Total Infrastructure	123.2	203.1	326.3	10.3	6.0
Total Alternatives	425.4 (13.3% of total Fund)	359.8	785.2	24.5%	20.0%

* - includes new commitment made in June/July 2019.

- 2.4. The total invested for Alternatives at 31 March 2019 of 13.3% is below the target allocation of 20% which reflects recent increase in strategic allocation and the time delay in identifying new managers and for the manager to deploy cash.
- 2.5. When undrawn commitments are considered, the allocations appear to be above the target holding for Alternatives. This measure taken in isolation does not give the full picture, however, as the Fund's private equity portfolio is relatively mature, at the stage where many of the early year investments are returning cash at a faster rate than new investments are making calls for cash. An 'over commitment' is necessary to reach and maintain the target allocation when older investments within the asset class are maturing and returning funds, and the total value of the Fund is expected to increase.
- 2.6. To demonstrate the maturity of the Fund's allocation to private equity and how quickly the invested value is eroded, Mercer have modelled the profile of the Fund's private equity investments assuming that no new commitments are made.



- 2.7. This paper introduces a more in depth review by Mercer of the Fund's private equity programme looking at how existing investments are diversified by geography, stage of investment vehicle and type. This leads on to an analysis of the options available for new commitments from the four managers currently used by ACCESS funds (Adams Street, Harbourvest, Pantheon and Partners Group) and the suitability of these for new investment by the Fund.
- 2.8. It is noted that the ACCESS pool is developing proposals for managing Alternative assets in a pool environment, but plans are at an early stage and it is unlikely that any new investment options will be available until 2020/21 at the earliest.

3. Background - Private equity programme

- 3.1. In June 2018, the Investment Sub Committee (ISC) resolved unanimously to:
- 3.1.1. approve a programme of new commitments to Private Equity over the years 2018-19 to 2021-22 of up to £240M;
 - 3.1.2. delegate to the Head of Pensions, in consultation with the Chairman, the timing of new commitments and selection of Private Equity funds from the following managers: Adams Street, Harbourvest, Pantheon and Partners Group.
- 3.2. In December 2018, new commitments of \$40m (c. £30m) each were made to global private equity funds managed by Adams Street and Harbourvest.
- 3.3. The impact of the increase in the strategic allocation from 5% to 7% will be to increase

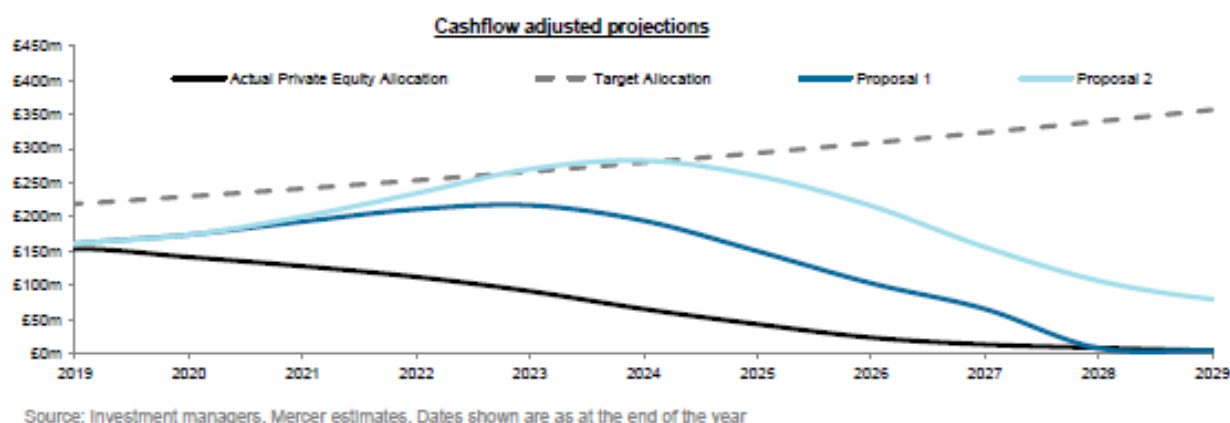
the recommended level of commitments above the annual rate implied in the 4 year plan previously approved and therefore exhaust the aggregate commitments of £240m more quickly than originally anticipated.

4. Review of existing portfolio

- 4.1. Mercer have analysed the Fund's existing commitments to the 22 vintages invested with ASP and 13 vintages invested with HV.
- 4.2. The analysis shows that:
 - 4.2.1. Geographically, the portfolio currently sits within the expected ranges for North America and Europe, but is slightly underweight in Asia/Emerging Markets, which is broadly where Mercer would expect;
 - 4.2.2. By investment stage, 64% of the portfolio is allocated to buyout-focussed strategies, with a material allocation to venture capital investments (c. 29%);
 - 4.2.3. Investment type is mainly primary investment strategies (c. 79%), followed by secondary investments (c. 16%) and direct/co-investments (5%).
- 4.3. As a result Mercer recommend that the Fund should continue to allocate globally (using secondary opportunities in the short-term and primaries to build/maintain the longer-term allocation), although the portfolio should continue to be monitored annually to ensure suitable diversification.

5. Private equity proposal

- 5.1. Mercer have modelled the forecast cash flows of the fund's existing commitments with ASP and HV and have also modelled two options showing the impact of the Fund making new commitments of:
 - 5.1.1. An allocation of c. £150m is made over two years starting September 2019 (c.£75m or c.\$95m p.a.);
 - 5.1.2. An allocation of c. £300m is made over four years starting September 2019 (c.£75m or c.\$95m p.a.).



- 5.2. As a result, Mercer's recommendation to the Head of Pensions is to:
 - 5.2.1. allocate c.£75m p.a. (c.\$95m p.a.) to private equity. It is noted that this annual level of annual commitment is out of line with the delegated budget of £240m over 4 years, but is recommended in order to grow the value invested towards the increased strategic allocation of 7%.

- 5.2.2. continue to allocate globally (using secondary opportunities in the short-term and primaries to build/maintain the longer-term allocation);
- 5.2.3. continue to be monitor the portfolio annually to ensure suitable diversification and to review progress towards the 7% strategic allocation.
- 5.3. Regarding manager and fund selection, Mercer have reviewed the products currently available from the four named managers taking into account the diversification by geography and investment stage that the Fund requires.
- 5.4. Mercer advise that the easiest and most cost effective way to achieve this exposure, is via the annual global flagship products that the Fund's two existing managers offer, namely the Adams Street - 2019 Global Program and the Harbourvest - 2019 Global Fund. The allocation should be split equally between the two managers.
- 5.5. Note that whilst Mercer would be comfortable in theory with investing with any of the four named managers, from a governance perspective, it would be advantageous to allocate to Adams Street and HarbourVest, given the existing relationships.
- 5.6. The Head of Pensions has consulted with the Chairman and agreed to implement the new commitments recommended by Mercer.
- 5.7. A further review of the Private Equity portfolio will be presented to the ISC in 2020.

6. Recommendation

- 6.1. That the Investment Sub Committee:
 - 6.1.1. Note the Private Equity Funds to which the Fund will subscribe in year 2 of the approved 4 year programme.

7. Relevant Pension Fund Objectives

<p><i>Objective 1</i></p> <p>Have robust governance arrangements in place, to facilitate informed decision-making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.</p>
<p><i>Objective 3</i></p> <p>Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment.</p>
<p><i>Objective 5</i></p> <p>Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.</p>
<p><i>Objective 18</i></p> <p>Put in place a Strategic Asset Allocation ensuring it is appropriately maintained taking into account the Funding Strategy.</p>

8. Finance & Resources Implications

- 8.1. The costs associated are contained within the presentations.

9. Risk management

- 9.1. The ISC have the Authority to review and maintain the asset allocation of the Fund within parameters agreed with the Pension Fund Committee and the authority to appoint and terminate investment managers to the Fund. In both proposing the strategy to the Pension Fund Committee and implementing the strategy the ISC are advised by external profession Investment Consultants, Mercer Ltd.
- 9.2. The risks associated with implementing the strategy have been captured in the Fund's risk register as detailed below.

Risk register	Risk mitigated	Residual risk
Investment (Risk 4)	Fund assets are not sufficient to meet obligations and liabilities as they become payable.	Amber
Investment (Risk 19)	Failure to act upon expert advice or risk of poor advice.	Green
Investment (Risk 23)	Investment decisions and portfolio management may not maximise returns or be performed in accordance with instructions provided.	Green

- 9.3. The Fund's full risk register can be found on the Fund's website at the following link:
<https://pensions.cambridgeshire.gov.uk/app/uploads/2019/05/RiskRegisterCPF.May2019.pdf>

10. Communication Implications

- 10.1. None.

11. Legal Implications

- 11.1. Legal advice will be sought as required.

12. Consultation with Key Advisers

- 12.1. This paper has been produced in conjunction with the Fund's Investment Consultants, Mercer.

13. Alternative Options Considered

- 13.1. Included in the paper.

14. Background Papers

14.1. None.

15. Appendices

15.1. Appendix A – Review of Private Equity Portfolio – August 2019 – Exempt paper.

Checklist of Key Approvals	
Is this decision included in the Business Plan?	Not applicable.
Will further decisions be required? If so, please outline the timetable here	Not applicable.
Is this report proposing an amendment to the budget and/or policy framework?	No.
Has this report been cleared by Chief Finance Officer/Section 151 Officer?	Yes. Sarah Heywood.
Has this report been cleared by Head of Pensions?	Yes. Mark Whitby.
Has the Chairman of the Pension Fund Committee been consulted?	Yes. Cllr Rogers.
Has this report been cleared by Legal Services?	Yes. Fiona McMillan.

CAMBRIDGESHIRE PENSION FUND



INVESTMENT SUB COMMITTEE

12th September 2019

Report by: HEAD OF PENSIONS

Subject	Independent Investment Adviser
Purpose of the Report	The purpose of this report is to outline the process for the appointment of an Independent Investment Adviser to the Cambridgeshire Pension Fund.
Recommendations	<p>That the Investment Sub Committee:</p> <ol style="list-style-type: none"> 1. Confirms that the Fund should tender for an independent Investment Adviser; 2. Notes the process and indicative timetable to appoint an Independent Investment Adviser to the Fund; 3. Instructs the Head of Pensions to take all steps to procure the Independent Adviser.
Approve	<p>Name: Richard Perry, Pension Services Financial Manager Tel: 07717 360604 Email: RPerry@Northamptonshire.gov.uk</p>

1. Purpose of the report

- 1.1. To outline the process for the appointment of an Independent Investment Adviser to the Cambridgeshire Pension Fund.

2. Background

- 2.1. The Committees of many LGPS Funds have the support of an Independent Investment Adviser. The role of the Adviser is primarily to give independent and considered advice to the Fund in the investment of its assets. The Adviser should also challenge the views of the ISC, the officers and the Investment Consultants, providing an alternative perspective to discussions and reflects best practice.
- 2.2. The tender for the Investment Adviser role is included in the Fund's Business Plan for 2019-20 that was approved by the Pension Fund Committee on 22nd March 2019 and therefore costs are included in current year budgets. The tender process is, however, subject to the Committee approval.

- 2.3. The Business Plan notes that Northamptonshire Pension Fund has an existing Independent Adviser whose contract expires at the end of January 2020. The Business Plan envisaged a joint procurement, sharing the costs of the exercise with Northamptonshire, although separate selections will be held for each Fund. Each Fund may appoint a different adviser or both Funds may appoint the same individual.

3. Independent advice

- 3.1. The Fund's investment strategy continues to evolve to meet the Fund's objectives whilst managing an appropriate level of risk. As dictated by the LGPS Investment Regulations, the Fund takes "proper advice" from its Investment Consultants Mercer Ltd.
- 3.2. Investment products and risk management solutions are growing in number and complexity. In the last 12 months the Fund has adopted Alternative Beta passive equity funds, has approved a Protected Equity strategy and may be considering Multi Asset Credit products and currency protection.
- 3.3. Whilst the ISC receive comprehensive briefing and training from Mercer, in this increasingly complex environment it is suggested that members would find it beneficial to have a second opinion from an Independent Adviser with industry experience (gained either as a fund manager or a senior LGPS officer). This would provide a different insight into investment solutions and knowledge of what products and solutions are being adopted by other LGPS funds (who are not Mercer clients).
- 3.4. It is therefore proposed that the Cambridgeshire Fund should appoint an Independent Adviser.

4. Selection process

- 4.1. Officers have consulted with LGSS Procurement to confirm the alternative procurement routes. Discussions continue to agree the most pragmatic option to attract the most relevant applicants. Involvement of LGSS Procurement will be chargeable, but the cost is contained within existing budgets.
- 4.2. A draft specification for the adviser role is attached as **Appendix 1**. This will be refined in conjunction with feedback from Mercer.
- 4.3. It is anticipated that the appointment will be made for an initial period of up to 5 years.
- 4.4. Submissions from applicants will be evaluated and interviews conducted by a panel consisting of the Section 151 Officer, the Chairman and Vice Chairman, and advised by the relevant officers of the Fund.
- 4.5. An indicative timetable is shown below. Specific dates may change depending upon the procurement route chosen.

Step	Target date (indicative)
ISC to note the process and timetable	20 September 2019
Final draft statement of requirements	14 October 2019

Issue Request for Quotation (RFQ)	1 November 2019
Deadline to receive responses	12 noon, 15 November 2019
Issue invitations to interview to shortlisted applicants	22 November 2019
Interviews with panel comprising s151, Chairman and Vice Chairman	2 December to 13 December 2019
Successful applicant notified, contract awarded	20 December 2019
Contracts signed, contract commences	1 February 2020
ISC paper to note the decision	21 February 2010

5. Recommendation

5.1. That the Investment Sub Committee:

- 5.1.1. Confirms that the Fund should tender for an independent Investment Adviser;
- 5.1.2. Notes the process and indicative timetable to appoint an Independent Investment Adviser to the Fund;
- 5.1.3. Instructs the Head of Pensions to take all steps to procure the Independent Adviser.

6. Relevant Pension Fund Objectives

<p><i>Objective 1</i> Have robust governance arrangements in place, to facilitate informed decision-making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.</p>
<p><i>Objective 3</i> Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment.</p>
<p><i>Objective 5</i> Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.</p>
<p><i>Objective 18</i> Put in place a Strategic Asset Allocation ensuring it is appropriately maintained taking into account the Funding Strategy.</p>

7. Finance & Resources Implications

- 7.1. The costs associated with procurement are contained within the 2019/20 Business Plan and budgets.

8. Risk management

- 8.1. The ISC have the Authority to review and maintain the asset allocation of the Fund within parameters agreed with the Pensions Committee and the authority to appoint and terminate investment managers to the Fund. In both proposing the strategy to the Pension Committee and implementing the strategy the ISC are advised by external profession Investment Consultants, Mercer Ltd
- 8.2. The risks associated with implementing the strategy have been captured in the Fund's risk register as detailed below.

Risk register	Risk mitigated	Residual risk
Investment (Risk 4)	Fund assets are not sufficient to meet obligations and liabilities as they become payable.	Amber
Investment (Risk 19)	Failure to act appropriately upon expert advice and/or risk of poor advice.	Green
Investment (Risk 23)	Investment decisions and portfolio management may not achieve the return required or be performed in accordance with instructions provided.	Green

- 8.3. The Fund's full risk register can be found on the Fund's website at the following link: <https://pensions.Cambridgeshire.gov.uk/app/uploads/2012/11/Risk-Register---Funding-and-Investment.pdf>

9. Communication Implications

- 9.1. None.

10. Legal Implications

- 10.1. Legal advice will be sought as required.

11. Consultation with Key Advisers

- 11.1. This paper has been produced in conjunction with the Fund's Investment Consultants, Mercer.

12. Alternative Options Considered

- 12.1. Included in the paper.

13. Background Papers

- 13.1. None.

14. Appendices

- 14.1. Appendix 1 – Independent Investment Adviser - specification.

Checklist of Key Approvals	
Is this decision included in the Business Plan?	Yes.
Will further decisions be required? If so, please outline the timetable here	Not applicable.
Is this report proposing an amendment to the budget and/or policy framework?	Included in existing budgets.
Has this report been cleared by Chief Finance Officer/Section 151 Officer?	Yes. Sarah Heywood.
Has this report been cleared by Head of Pensions?	Yes. Mark Whitby.
Has the Chairman of the Pensions Committee been consulted?	Yes. Cllr Rogers.
Has this report been cleared by Legal Services?	Yes. Fiona McMillan.

Independent Investment Adviser - Specification**1. OUTLINE OF THE ROLE**

- The Fund wishes to appoint a suitable person to support the Fund on the management of its investments in compliance with the LGPS Investment Regulations 2016.
- The Fund is looking for truly independent advice, which at times may challenge the views of the Investment Sub Committee, the officers, the investment consultants (currently Mercer Limited), external fund managers as well as other service providers to the fund, and bring a new perspective to the discussion.
- The appointment will be for an initial period of 5 years, with the option to renew. It will be subject to termination with 6 months notice from either side.

2. REQUIREMENTS OF THE ROLE.

The appointee may be required to advise on (but not limited to) the following areas:

- a) The investment aspects of the LGPS Regulations and other relevant pension's investments legislation as they apply to the Fund and the ACCESS asset pool.
- b) The appropriate investment strategy / strategic asset allocation to meet the Fund's liabilities.
- c) Appropriate investment management methods and structures for delivery of the strategy.
- d) The selection of ACCESS pool sub-funds or, where the available sub-funds are not appropriate to the Fund's strategic requirements, assisting with investment manager specifications to deliver the strategy.
- e) The selection of appropriate benchmarks and performance targets [including the ongoing monitoring and commentary on the relevance of those benchmarks and targets.
- f) The activity and performance of the Fund's investment mandates and the whole Fund.
- g) When to invest, switch or disinvest from investment mandates.
- h) The risks involved with existing or proposed investments including commentary/advice on interest rate risk, inflationary expectations, active versus passive management, long term investment returns, etc;
- i) The assessment of external influences affecting investment returns and the economic climate including commentary on industry developments, economic and investment issues with appropriate advice.
- j) Participation in any discussions relating to investment issues arising out of actuarial studies affecting the Fund;

Independent Investment Adviser - Specification

- k) Indirect investment issues such as custody, corporate governance, stock-lending, commission recapture, rebalancing, investment transition, fee structures, investment vehicle structures, etc.
- l) The fund's approach to responsible investment (Environmental/Social/Governance matters).

3. **PRACTICAL REQUIREMENTS**

The successful appointee will be:

- m) Required to attend between 8 to 10 day-time committee, board and/or performance monitoring meetings per annum, either at the County Council's offices in Cambridge or at Investment manager offices that are typically in London. Each meeting normally lasting about 4 hours and tend to commence at 9.30am. There may also be special purpose meetings (e.g. consideration of actuarial valuation results, appointment of investment managers, etc) where attendance will be required.
[Applicants to indicate whether they have the capacity to provide this level of commitment to Cambridgeshire alone or to both Cambridgeshire and Northamptonshire Funds].
- n) Able and willing to be involved in relevant Local Pension Board or Committee training events (internal & external) from time to time, typically 3 all day events per annum;
- o) Required to advise Cambridgeshire Pension Fund officers and (potentially) members of the Investment Sub Committee and Pension Fund Committee on an ad-hoc basis as issues arise, in person, by telephone, by email and at times by formal report; and
- p) Expected to give his/her opinion on committee reports, policy documents, performance data, consultation responses, etc, prepared by the Fund's officers, Investment Consultants or Investment managers as required.

August 2019

