

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

TUESDAY, 25TH JUNE, 2019

- Councillors Present:** Councillor Robert Chapman in the Chair
Cllr Michael Desmond (Vice-Chair), Kam Adams,
Cllr Ben Hayhurst and Cllr Rebecca Rennison
- Co-optee** Jonathan Malins-Smith
- Apologies:** Cllr Polly Billington
- Officers in Attendance:** Ian Williams (Group Director of Finance and Corporate Resources), Michael Honeysett (Director of Financial Management), Rachel Cowburn (Head of Investment & Actuarial Services), Julie Stacey (Head of Pensions Administration) and Sean Eratt (Legal Services).
- Also in Attendance:** Andrew Johnston – Hymans Robertson
Karen McWilliam – Aon
Mike O'Donnell & Kevin Cullen – London CIV

1 Apologies For Absence

- 1.1 Apologies for absence were received from Councillor Billington.
- 1.2 Apologies for lateness were received from Councillor Rennison.

2 Declarations of Interest - Members to declare as appropriate

- 2.1 Councillor Desmond declared a non-pecuniary interest as a deferred member of the LGPS until further clarification regarding his pension status.

3 Consideration of The Minutes of The Previous Meeting

- 3.1 Councillor Chapman clarified that his pension status had changed and he was no longer a deferred member of the LGPS.

RESOLVED that the minutes of the previous meeting held on 25 March 2019 be agreed as a correct record subject to the above amendment.

4 London CIV Update - Presentation

- 4.1 Rachel Cowburn introduced the report providing an update from the London Collective Investment Vehicle (LCIV) on progress to date and future planning. Representatives from LCIV would provide an update on the company's recent personnel changes and its current work programme including the development of its approach to Responsible Investment.

4.2 Mike O'Donnell, CEO and Kevin Cullen from London CIV provided an update as follows:

- **London CIV update**
 - £18bn of assets within its oversight
 - Over 50% of London's assets are now pooled
 - There are 14 active sub-funds
 - The CEO and CIO were appointed and staff increased by over 65% in the previous year
 - An overview of London CIV from 2015 to 2019
- **Pooling landscape**
 - London pooling landscape
- **Governance and oversight**
 - Governance structure of London CIV: Shareholders Committee; Shareholders General Meeting
 - Oversight of LCIV:
 - Independent oversight – Board
 - External independent oversight – FCA; Depositary; and auditors
 - Government oversight - MHCLG
- **Fund range**
 - Current fund offering
 - Provisional Fund Launch Plan
- **Hackney LCIV portfolio**
 - LCIV sustainable Equity Fund £207.7m

4.3 Mr Cullen advised that the core, private debt and infrastructure sub-funds would be launched soon and CIV would now be focusing on infrastructure.

4.4 Mr Johnston enquired whether LCIV's findings of its 12 month review would be available to the London boroughs. Mr O'Donnell confirmed that the findings would be shared with other London boroughs.

4.5 Councillor Adams asked how London CIV intended to restore trust in the organisation. Mr O'Donnell stated that senior management were working hard attending meetings to engage and build good relationships with the London boroughs. LCIV would be identifying key challenges and engaging with boroughs to ensure its products were fit for purpose and met their investment requirements.

4.6 Councillor Hayhurst asked if there was any evidence of LCIV performance and how it met London Local Authorities pooling requirement. Mr O'Donnell replied that LCIV's successful performance could be measured through its cost savings and the launching of a project concentrating on enhanced cost efficiencies including transition costs and higher returns through different investment opportunities. The LCIV was working with London local authorities to identify their investment requirements and deliver specific funds to meet these needs such as a low carbon fund. In future LCIV would be reviewing its asset allocation and working with London authorities on providing further sub-funds and reviewing the pooling strategy

4.7 Ms Cowburn enquired if the pool had an overarching transition strategy. Mr Cullen indicated that plans were in progress regarding a transition management strategy and that one borough had yet to sign the business purpose letter.

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4.8 Mr Malins-Smith asked if Hackney was represented within the London CIV's governance structure and the Shareholder's Committee. Mr Cullen confirmed that the Council's Director of Finance and Corporate Resources was a Treasurer Observer on the London CIV Board and fully participated in its work. The Board reported to the Shareholder Committee, which met quarterly.

4.9 Councillor Rennison enquired how London CIV was complying with responsible investment, in terms of voting rights. Mr O'Donnell stated that Fund Managers currently voted in line with the voting alerts received from LAPFF but this was a challenge. Mr Cullen confirmed that work was being undertaken to produce voting and engagement strategies, and that LCIV needed to develop a new approach to voting and its own voting policy to meet the London authorities' requirement.

4.10 Mr Malins-Smith sought clarification regarding London CIV employees' pensions arrangements. Mr O'Donnell indicated that LCIV was currently reviewing its remuneration policy and whether to leave the LGPS or close membership of the scheme to future employees.

4.11 Councillor Desmond asked about the liquidity of investment funds and enabling Pension Funds to invest in infrastructure. Mr O'Donnell stated that LCIV was currently reviewing its liquidity policy and that some investment funds such as the property fund had non-liquid assets. It was clarified that the property fund was high on the LCIV's agenda and that it had engaged with its existing property fund manager. However, as many boroughs had already invested in property prior to CIV, a property fund would have to complement existing investment. With regard to infrastructure, a Fund Manager had been selected for this fund, which would be launched in the near future and enable authorities to invest in renewables.

4.12 The Chair asked about how LCIV intended to address carbon exposure. Mr O'Donnell stated that many boroughs were measuring carbon exposure and committing to low carbon emissions. LCIV would be addressing this issue when the organisation's resources were in place and ensure that relevant investment funds were available.

RESOLVED to note the report

5 Quarterly Update Report

5.1 Rachel Cowburn introduced the report providing an update on the key quarterly performance measures including the funding position, fund governance, investment performance, responsible investment, budget monitoring, administration performance and reporting of breaches.

5.2 The Chair advised that an exercise on the layout of information was being undertaken in the coming weeks and indicated that Members should send their comments to Ms Cowburn. Ms Cowburn explained that officers were reviewing the report to include more useful information and presentation of information. Councillor Rennison indicated that the information available in the current report was easy to understand and would like this layout to remain unchanged.

5.3 Councillor Rennison enquired about cash gaps. Mr Johnston explained that the Fund's liabilities were sensitive to interest rates and as gilt yields got lower liabilities would increase. This was partially driven by concerns around Brexit and other factors.

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Members were referred to page 30 of the report detailing the impact of gilts movements and funding levels.

5.4 Councillor Adams enquired about the impact of Brexit on gilts. Mr Johnston stated that the more likelihood of uncertainty in the UK economy would result in continued lower interest rates and any future investment in gilts would need to be considered as a long term investment. The Committee would be receiving information on gilts as part of the investment strategy at a future meeting.

5.5 Councillor Desmond referred to LCIV Fund's performance at 13.3% over three months. Mr Johnston stated that the increase had been occurred over three months and had resulted from its asset allocation, World Equity mandate, becoming an asset leader.

5.6 Councillor Rennison queried if there was a set threshold that the Fund's funding level could not to fall below. Ms Cowburn stated that if an estimated funding level significantly dropped there was provision for the government to review how the Fund had carried out its valuation including types of assumptions. Further, a Fund's deficit recovery plan and contribution rate could be challenged if the plan did not repay the deficit.

RESOLVED to note the report.

6 Pension Fund Budget

6.1 Rachel Cowburn introduced the budget for the Pension Fund for 2019/2020 including income and expenditure from various sources and the impact of these for the Pension Fund in the next financial year.

6.2 Ms Cowburn highlighted that the 2019/20 budget set out the Fund's expected income and expenditure across member cashflows, operating costs and investment income. Member cashflow included contribution inflows from members and employers, benefit payments and transfer ins and out. These represented the Fund's significant cashflow but were outside the control of the Fund. Member cashflow had been sensitive to changes in the Fund's membership profile such as the balance of active, deferred and pensioner members. This balance was likely to change over the longer term as the Fund matured and the ratio of pensioner and deferred to active members increased, which would gradually reduce the Fund's net cash inflows. Key assumptions had been made around member cash inflows and member cash outflows.

6.3 Mr Mailins- Smith noted the projection included no material change expected in active members. Ms Cowburn replied that over the longer term as the Fund matured active members would increase, however, it would not be appropriate at this stage to make an assumption about active members that was relatively unknown and not sufficiently accurate and apply that assumption in next year's cashflow.

6.4 Councillor Desmond enquired about the increase in oversight and governance costs. Ms Cowburn clarified that the increase reflected the reclassification of administrative costs and oversight costs, and that the additional governance support had also contributed to the rise in this cost.

RESOLVED to approve the budget for 2019-20.

7 Data Improvement Update (to include update on TPR)

7.1 Rachel Cowburn provided an update on the Fund's engagement with the Pensions Regulator following a breach of law report made in respect of the annual benefit statements for 2017/18 and the actions taken and planned to help both rectify the breach and address its underlying causes.

7.2 The Chair enquired when the long standing issue relating to the Annual Benefits Statement not being sent out would be resolved. Ms Cowburn replied that submitting good quality data to the Pension Fund had been an ongoing problem for the Council and that there had been many challenges with the payroll system providing complete and accurate data within required timescales. However, progress was being made to improve data quality, with payroll being allocated additional resources and also further work being undertaken on the pensions administration and Council's payroll systems. Better quality of data had been received in June 2019 and the Payroll Team were engaging with the Pensions Teams to provide improved end of year reports.

7.3 Mr Malins-Smith asked whether any of the active members that had been issued an apology letter for not being provided their annual benefit statement had requested information. Ms Cowburn confirmed that under ten members had responded to the letter requesting information and that officers considered the failure of issuing these statements a serious issue.

RESOLVED to note the report

8 Pension Fund Administration Annual Report 2018/19

8.1 Rachel Cowburn introduced the report outlining the work undertaken by the London Borough of Hackney as the administering authority and the performance of the Pension Fund's administrators for the financial year 2018/19. Equiniti, the pension administrators had managed the contract for pension administration and payroll with the contract being overseen by the Pensions Administration Team within the Council.

RESOLVED to note the report.

9 Report Strategic Business Plan 2019-2022

9.1 Rachel Cowburn introduced the Fund's Business Plan for the period covering 2019-22. The plan sets out the key tasks the Fund needed to undertake to fulfil its strategic objectives for the next three years, a draft work plan for the Committee and communications plan for the current financial year 2019-20. Ms McWilliam outlined some of the strategic activities to be undertaken.

9.2 In response to a question from the Chair regarding the Fund's investment objective in particular responsible investment in fossil fuel, Ms Cowburn advised that investment in fossil fuel had been factored into the strategy development and that one area to be covered as part of the strategy development would be a review of the actuarial.

RESOLVED to approve the Business Plan for the Pension Fund for 2019-22.

10 Policy Consultation - Changes to the Valuation Cycle and Management of Employer Risk

10.1 Rachel Cowburn introduced the report detailing the policy consultation run by the Ministry of Housing, Communities and Local Government in relation to the changes to the LGPS local valuation cycle and the management of employer risk. The report set out the scope and timescale of the consultation and recommended approach for the Fund to follow in responding.

10.2 It was noted that a draft response would be circulated for Members' comments and that a response had to be submitted within a few weeks.

10.3 Members asked whether there were any benefits in moving from 3 to 4 year valuation cycle. Ms Cowburn stated that there would be no impact on the Pension Fund, however, four years was a long period in terms of managing funding level, valuation and checking on the quality of data.

RESOLVED to agree the approach proposed in Section 6.2 for responding to the consultation.

11 Forward Plan

11.1 Rachel Cowburn outlined the forward plan for the Committee.

11.2 Councillor Desmond requested the inclusion of the LBH Pensions Fund liquidity to be incorporated into the Quarterly update or reported separately. The Chair requested the inclusion of an item entitled responsible investment update.

RESOLVED that the forward plan be noted.

12 Any Other Business Which in The Opinion Of The Chair Is Urgent

12.1 There was no other urgent business.

13 Exclusion of The Press And Public

RESOLVED that the press and public be excluded from the proceedings of the Pensions Committee meeting during consideration of Exempt item 14 on the agenda on the grounds that it is likely, in the view of the nature of the business to be transacted, that were members of the public to be present, there would be disclosure of exempt information as defined in Schedule 12A to the Local Government Act 1972 as amended.

14 Consideration of the Exempt Minutes of the Previous Meeting

RESOLVED that the exempt minutes of the previous meeting held on 25 March 2019 be agreed as a correct record.

Duration of the meeting: 6.30-8.40pm