

## MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

WEDNESDAY, 23RD MARCH, 2016

- Councillors Present:** Councillor Robert Chapman in the Chair  
Cllr Michael Desmond (Vice-Chair) and  
Cllr Geoff Taylor
- Apologies:** Councillor Brian Bell, Councillor Feryal Demirci  
and Councillor Jonathan McShane
- Co-optees:** Mr Neil Isaac (Employer Representative) and  
Mr Jonathan Malins-Smith (Scheme Member  
Representative)
- Officers in Attendance:** Ian Williams (Corporate Director of Finance and  
Resources), Michael Honeysett (AD Financial  
Management), Jill Davys (Head of Financial Services),  
Rachel Cowburn (Project Manager) and Stephen  
Rix (Legal Services).
- Also in attendance:** Andrew Johnson - Hymans Robertson

### 1 APOLOGIES FOR ABSENCE

- 1.1 Apologies for absence were received from Councillors Bell, Demirci and McShane.

### 2 DECLARATIONS OF INTEREST - MEMBERS TO DECLARE AS APPROPRIATE

- 2.1 Cllrs Chapman, Desmond and Taylor declared a non-pecuniary interest as deferred members of the LGPS.

### 3 CONSIDERATION OF THE MINUTES OF THE PREVIOUS MEETING

- 3.1 The minutes of the meeting held on 28<sup>th</sup> January 2016 were approved as a correct record subject to the amendment at paragraph 5.13 as follow:  
To delete the sentence 'Mr Malins-Smith enquired about alternative renewable energy to replace fossil fuel' and replace with the wording 'Mr Malins-Smith asked about what proportion of Big Oil's activities were concerned with the production of petro-chemicals for use in plastics manufacture and healthcare and any alternative renewable energy to replace fossil fuel. Mr Spedding indicated that it was approximately 10% of the total production or as much that was being burnt for energy or used as motor fuels.'

#### 4 TRAINING SESSION - PROPERTY INVESTMENT

- 4.1 Jill Davys, Head of Financial Services introduced the report on the training session for Members on property investments, which would also assist in understanding a more focused discussion on a potential targeted low-carbon property investment.
- 4.2 Moira Gorman and Don Jordison from Columbia Threadneedle Investments, delivered a training on UK Commercial Property. An outline of the areas covered in the presentation are set out below:

##### **Introduction to Columbia Threadneedle Property**

- Property Threadneedle property credentials
- LB Hackney Pension Fund investment
- TPEN – performance record

What is commercial property investment

- Four key commercial property sub-sectors
- How does commercial property derive a return

How to make money and how to lose it

- How to make money

##### **Low carbon workplace Fund**

- Low Carbon Workplace Partnership

Occupiers sign the LCW Charter and work towards certification to the LCW standard

- What difference can we make

-Low carbon workplace works because it creates value for occupiers and landlords alike

- Cutting carbon emissions from commercial property is key to climate change mitigation

- A rigorous, joined up approach: the complexity of energy consumption in offices.

- working with occupiers to identify opportunities to reduce energy waste

- Aligning energy use to occupancy patterns significantly reduces waste.

- performance to date illustrates our philosophy of 'better buildings , used better'

- Our buildings comfortably outperform industry benchmarks

##### **Performance**

Low Carbon Workplace Fund

A unique investment opportunity

**RESOLVED to note the contents of the report and presentation.**

#### 5 LOW CARBON PROPERTY FUND - THREADNEEDLE

- 5.1 Jill Davys, Head of Financial Services introduced the report covering the proposals to consider an initial investment of £25m in a Low Carbon Workplace Fund. This follows on from a recommendation to consider switching some of the existing property mandate into a low carbon property fund at a previous special meeting.
- 5.2 Cllr Desmond asked if any capital gains tax (CGT) was payable on commercial investments and the criteria for selecting categories. Mr Jordison confirmed that no CGT was payable on Pension Fund investments and that the categories

were selected based on examining depreciation and demand for retail and office space.

- 5.3 Mr Malins-Smith enquired about the UK upwards only rent review system. Mr Jordison advised that the review system had been abolished however this clause remained in long term leases that are longer than 10 years in the UK and Ireland.
- 5.4 Cllr Taylor referred to the recent mixed use developments. Mr Jordison indicated that the commercial and residential interests did not mix well as the developer had the lease rights and residential properties were charged peppercorn rate.
- 5.5 Mr Malins –Smith enquired with regard to property voids in the portfolio. Mr Jordison stated that the property void rate had been low as estate agents had been appointed to let any vacant commercial space. Ms Gorman added that Threadneedle’s vacancy rate of 6.7% was below the national average.
- 5.6 Mr Isaac asked if Columbia Threadneedle Investments invested in the construction of buildings. Mr Jordison indicated that investing in building was not financially viable and that developers should bear the risks.
- 5.7 In response to Cllr Taylor’s query regarding the registration of the company in Jersey, Mr Jordison advised that Jersey provided tax advantages for pension fund investments.
- 5.8 Mr Isaac sought clarification whether the £25m within the report was 10% of the Pension Fund and sought advice on investing further funds. Mr Jordison explained that the Fund would be acquiring between 10 to 25% share. Ms Davys confirmed that the £25m investment would be committed for a minimum period of 5 years and after that time redemption of units may be restricted. Furthermore, it was not currently appropriate to invest additional funds in property market
- 5.9 In response to a question regarding the fees, Mr Jordison advised that the Pension Fund would benefit from any discounts as new investors.

**RESOLVED to:**

- 1. Approve an initial investment of £25m to a low carbon property fund to be financed by divestment from the Fund’s existing property mandate**
- 2. Delegate to the Corporate Director of Finance & Resources making the necessary arrangements to negotiate and facilitate the switch out of the existing property mandate into an investment in a low carbon property fund.**

**6 QUARTERLY MONITORING REPORT**

- 6.1 Rachel Cowburn, Project Accountant/Manager provided an update on the key quarterly performance measures, including an updated funding position, investment performance, engagement and corporate governance, budget monitoring, administration performance and reporting of breaches. It was highlighted that the fund’s position could be affected by the outcome of the EU Referendum and it’s impact on the financial markets.

- 6.2 Mr Malins- Smith referred to the improvement in contribution rates over the previous years and asked if they anticipated any changes to the rate. Ms Davys stated that the calculation was based on previous valuations and would be reviewed to factor in changes such as auto-enrolment.
- 6.3 In response to a question from a Member, Ms Davys confirmed that the Learning Trust had provided the data required but that regular monitoring would take place in future to ensure that data was provided by the deadline.
- 6.4 Mr Isaac enquired with regard to the impact of higher inflation on the Pension Fund. Mr Johnson indicated that higher inflation would have a modest impact on the Fund's investments but would help with growth.
- 6.5 Mr Malins- Smith referred to the unreported breaches and asked if the charges levied against the employers for failure to provide the data required were the same. Ms Cowburn confirmed that the fees were the same for the five employers that failed to comply with the deadline.

**RESOLVED to note the report.**

## **7. FIXED INTEREST PORTFOLIO**

- 7.1 Andrew Johnson, Hyman Robertson presented the discussion paper on the Fund's Fixed Interest Management and proposals for making amendments to allow additional flexibility for the Fund's existing manager in order to enhance their ability to deliver performance over the longer term.
- 7.2 Mr Johnson provided information on the three options: derivatives; sovereign bonds; and currency exposure.
- 7.3 Mr Malins- Smith referred to BMO and its use of derivatives. Mr Johnson indicated that the use of derivatives in a mandate was a reasonable risk.
- 7.4 Mr Isaac asked about the higher risks to the Fund if flexibility is not granted. Mr Johnson indicated that without flexibility it would be more challenging for the Fund Manager to meet its return objectives. Furthermore, it was reasonable to use flexibility as portfolios had to evolve with markets and flexibility was needed to increase opportunities in order to meet targets. Ms Davys explained that flexibility did not require a change in the mandate and did not carry any additional risks to the portfolio.
- 7.5 The Chair asked about the potential implications and risks of leaving the European Union. Mr Johnson said that there many issues if the UK left the European Union which included having to renegotiate trade deals with EU countries, the impact on UK markets and the implications of currency change.

- 7.6 Cllr Desmond enquired about the time it would take to implement the decision following approval. Mr Johnson indicated that the decision could be implemented before the EU referendum.
- 7.7 Mr Isaac asked if it would be possible to track the impact of the discretions granted. Mr Johnson indicated that he would advise BMO to include this issue in their report to Hymans Robertson.

**RESOLVED to:**

- 1. Approve extension of the scope for the use of derivatives in the Fixed Income mandate to include facilitating efficient portfolio management, with delegated powers given to the Corporate Director of Finance and Resources in consultation with the Chair of Pensions Committee agreeing specific terms for the use of derivatives**
- 2. Approve proposals to increase the maximum permissible allocations to lower-rated sovereign debt within the BMO Fixed Interest mandate**
- 3. Approve guidelines within the Fixed Interest portfolio which allow a maximum exposure to non-sterling currencies of 5%**

**8 INVESTMENT POOLING UPDATE**

- 8.1 Jill Davys, Head of Financial Services provided an update on the progress of Pooling of LGPS investments, the responses submitted on behalf of the London Borough of Hackney and the London CIV and advised that a draft response to the Investment Reform Criteria and Guidance would be submitted at the next meeting.

**RESOLVED to:**

- 1. Note the responses submitted by the London CIV and the London Borough of Hackney**
- 2. Note the progress of Pooling of LGPS Investments**
- 3. Note the timeframe for the more detailed response to the Investment Reform Criteria and Guidance**

**9. PENSION FUND BUDGET 2016/17**

- 9.1 Rachel Cowburn, Project Accountant/Manager presented the budget for the Pension Fund for 2016-17 and for the following two years. Ms Cowburn summarised the income and expenditure from various sources and the impact of these on the Pension Fund in the next financial year.
- 9.2 Ms Cowburn advised that the 2016/17 budget projected a reduction of 5% in active members and it would be prudent to include the reduction and its impact on the Fund. It was stressed that it was difficult to forecast future cashflows with accuracy as changes in membership numbers, salaries and contribution rates were likely to have a significant impact.
- 9.3 Mr Malins-Smith enquired about the impact of any further reduction in active membership on the positive cashflow. Ms Cowburn stated that the assumption is based on active membership decreasing by 5% and officers were also looking at cashflow modelling.

**RESOLVED to approve the budget for 2016-17 attached at Appendix 1 of the report.**

### **10 PENSION FUND AUDIT ARRANGEMENTS 2015/16 - ANNUAL REPORT & ACCOUNTS**

- 10.1 Jill Davys, Head of Financial Services introduced the report covering the arrangements for the audit of the Pension Fund Report and Accounts for the financial year 2015-16.

**RESOLVED to note the contents of the report.**

### **11 ACTUARIAL VALUATION 2016 TIMELINE**

- 11.1 Jill Davys, Head of Financial Services introduced the report on the overview of the anticipated timeline for the forthcoming actuarial valuation as at 31<sup>st</sup> March 2016. Ms Davys advised that the changes to the discount rate for unfunded public service pension schemes in 2019/20 would increase the costs for employers.

**RESOLVED to note the report**

### **12 LONGEVITY MONITORING - CLUB VITA (COLOUR)**

- 12.1 Jill Davys, Head of Financial Services presented the report updating on the changes in longevity and consequent impact on funding levels for the Pension Fund.

**RESOLVED to note the contents of the report.**

### **13 TRAINING POLICY**

- 13.1 Karen McWilliam, Aon introduced the report seeking approval for an updated training policy for the London Borough of Hackney Pension Fund, which would apply to all members of the Pensions Committee, Pension Board and senior officers responsible for managing the Fund. Ms McWilliam indicated that the policy has been updated to reflect Guidance issued by CIPFA in respect of the Pensions Board.
- 13.2 In response to a question from the Chair, Ms Davys advised that The Pensions Regulator's Trustee toolkit was aimed at trustees with a series of learning modules and downloadable resources and the web link would be circulated to members.

**ACTION:** To circulate the trustee toolkit link to Members  
<https://trusteetoolkit.thepensionsregulator.gov.uk/>

**RESOLVED to:**

- 1. Approve the London Borough of Hackney Pension Fund Training Policy.**
- 2. Note the need for each Committee Member, Board Member and senior officer to adhere to the Training Policy and maintain the required level of knowledge and skills.**

## **14 GOVERNANCE - SELF ASSESSMENT AND ASSESSMENT OF ADVISERS**

- 14.1 Jill Davys, Head of Financial Services presented the report providing the background to the annual Self-Assessment Questionnaire and Performance of Advisers Assessment. Ms Davys advised that a web link to the forms would be circulated to members of the Pensions Committee and Pensions Board following the meeting and the forms should be returned by April 2016.

### **RESOLVED to:**

- 1. Note the contents of the report.**
- 2. Individually complete the self-assessment and assessment of advisers questionnaire**

## **15 PENSION ADMINISTRATION STRATEGY 2015/16**

- 15.1 Rachel Cowburn, Project Accountant/Manager reported on the updated Pension Administration Strategy, which had been updated to reflect recent regulatory changes including the introduction of the requirement for a local Pensions Board. Ms Cowburn advised that the changes were limited to clarification of the responsibilities of both Fund and employers with respect to auto- enrolment processes.
- 15.2 The Chair enquired if the fees levied against a scheme employer were a one off. Ms Cowburn indicated that the charges could be reoccurring if the information was not supplied by the deadline.

### **RESOLVED to approve the updated Pension Administration Strategy for publication**

## **16 ANY OTHER BUSINESS WHICH IN THE OPINION OF THE CHAIR IS URGENT**

- 16.1 Councillor Taylor on behalf of the Sub-Committee thanked Ms Davys for her contribution and support to Committee members over the years and wished her the best for the future.

**Duration of the meeting:** 6.30 - 9.00 pm

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