

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

MONDAY, 27TH JUNE, 2016

Councillors Present: Councillor Robert Chapman in the Chair
Cllr Kam Adams, Cllr Michael Desmond (Vice-Chair), Moule and Cllr Geoff Taylor

Apologies: Councillor Feryal Demirci

Officers in Attendance: Ian Williams (Group Director of Finance and Corporate Resources), Michael Honeysett (Director Financial Management), Julie Stacey (Head of Pensions Administration), Rachel Cowburn (Project Manager), Christopher Ellmore (Treasury and Banking Manager) and Stephen Rix (Legal Services).

Also in Attendance: Karen McWilliam - Aon
Andrew Johnson - Hymans Robertson
Jill Davys - London CIV

1 APOLOGIES FOR ABSENCE

- 1.1 Apologies for absence were received from Councillor Demirci and Jonathan Malins- Smith (Scheme Member Representative).

2 DECLARATIONS OF INTEREST - MEMBERS TO DECLARE AS APPROPRIATE

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

3 CONSIDERATION OF THE MINUTES OF THE PREVIOUS MEETINGS

RESOLVED that the minutes of the meetings held on 23rd March 2016 subject to the inclusion of Karen McWilliam in attendance and 25th May 2016 were approved a correct record.

4 TRAINING SESSION - ACTIVE AND PASSIVE INVESTMENT APPROACH

- 4.1 Andrew Johnston, Hymans Robertson delivered a presentation on active versus passive equity investment and the following areas were covered:
- CIPFA Knowledge and skills framework
 - Active v passive equity investment
 - What is equity
 - Active and passive management

- Passive: Objective to track an index
 - Active: Objective to outperform some benchmark
 - Active v passive – Criteria and comparison
 - Selecting between active v passive
 - Market concentration as at 31 May 2016
 - Country and industry split
 - Passive v Active pros and cons
 - Investment beliefs
 - Current target structure
- 4.2 The Chair asked if a mix of passive and active management would assist in the diversification of the Fund. Mr Johnston stated that active managers invested in different sectors from passive managers and that active managers could complement and add to diversification in the portfolio.
- 4.3 Councillor Desmond asked if there was any risk of active and passive managers colluding in investments. Mr Johnston stated that Fund Managers acted in the interest of their clients and on behalf of Pension Funds when making investments and that it would not be feasible for all Fund Managers to invest in the same companies.
- 4.4 Councillor Adams enquired whether the risks were higher for active equity investments compared to passive investments. Mr Johnston said that the risk depended on the fund manager's style and that some sectors were more volatile than others.

RESOLVED to note the report and presentation.

5 APPOINTMENT OF CO-OPTees ON THE PENSIONS COMMITTEE 2016/17

- 5.1 The Chair introduced the report on the appointment of a Scheme Member Representative as co-opted member of the Pensions Committee and an update on the Scheme Employer Representative vacant post and the current membership of the Pensions Board.

RESOLVED to:

- 1. Re-appoint Jonathan Malins-Smith as Co-optee Member; Scheme Member Representative of the Pensions Committee for the 2016/17 municipal year;**
- 2. Note the position regarding the nomination of Co-optee Member; Scheme Employer Representative of the Pensions Committee; and**
- 3. Note the current position regarding the membership of the Pensions Board.**

6 QUARTERLY MONITORING REPORT

- 6.1 Rachel Cowburn, Project Account/Manager, introduced the report providing an update on key quarterly performance measures, including an update on the funding position, investment performance, engagement and corporate governance, budget monitoring, administration performance and reporting of breaches.
- 6.2 Ms Cowburn reported that GMO had announced changes to their management team and strategy to address the underperformance of the fund. Mr Johnson

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added that the revised strategy focused on quantitative stock selection and this would provide opportunities to increase the potential income of the fund whilst removing the element of exposure in the portfolio that had led to the underperformance. Furthermore, the revised management structure would also improve transparency and accountability.

- 6.3 Members expressed concern at the underperformance of the Fund Managers, in particular GMO and Lazard Asset Management and whether any changes were necessary to improve performance. Councillor Adams enquired with regard to quantitative stock selection approach and Mr Johnson stated that GMO was reverting to its core ethos and summarised the advantages and disadvantages of the quantitative selection approach. Mr Johnson added that Members should have realistic expectations of what could be achieved and that Fund Managers would react to any market opportunities to deliver on performance. The Chair indicated that the costs of disinvesting from a fund could be prohibitive.
- 6.4 Councillor Desmond asked if the risks were the same for Fund Managers and the Ethical Investment Fund (EIF). Mr Johnson stated that the current approach taken by the Committee was reasonable as Fund Managers had good policies and were engaging with the Council. The area of ethical funding had grown in recent years and there would opportunities in the future to invest in this fund.
- 6.5 The Chair noted the falls in funding levels and Mr Johnson stated that this was due to the falls in Equity UK and gilts remaining at historic low levels.
- 6.6 The Chair enquired about the payroll issue and Ms Cowburn said that progress had been made and the Pensions Team were working with the Council's payroll provider and Master Data team to improve the quality of data provided.

RESOLVED to note the contents of the report.

7 LGPS INVESTMENT POOLING UPDATE AND JULY SUBMISSION

- 7.1 Jill Davys, London CIV, introduced the report providing an update on the Government's pooling agenda for LGPS funds and the draft response on behalf of the London Collective Investment Vehicle.
- 7.2 Ms Davys advised that the London CIV were still awaiting responses from a few London boroughs but were examining the data held in terms of costs and making savings. It was anticipated that the costs of asset allocations would increase following the changes and infrastructure was currently being reviewed. Ms Davys indicated that she would take any feedback on the draft response.
- 7.3 The Chair enquired if the current position in relation infrastructure would change and Ms Davys stated that any changes would be dependent on the responses received from the consultation exercise. Responding to concerns regarding potential infrastructure investments, Ms Davys indicated that many Pensions Funds had indirect exposure to the housing market through private equity investments.

RESOLVED to:

1. Note the draft response for the July submission to Investment Reform Criteria and Guidance on behalf of the London CIV and agree delegated powers for the final response to the proposals for 15th July 2016 to be done by the Group Director of Finance & Corporate Resources in consultation with the Chair of Pensions Committee.
2. Note that additional comments on behalf of the London Borough of Hackney are currently being drafted for the 15th July 2016 submission and agree that any final response on behalf of the London Borough of Hackney be agreed with the Director of Finance & Corporate Resources in consultation with the Chair of Pensions Committee

8 FAIR DEAL CONSULTATION

- 8.1 Julie Stacey introduced the report providing details of the consultation on the draft Regulations to amend the Local Government Pension Scheme Regulations 2013 (SI/2356) which came into force on 1 April 2014. The Local Government Pension Scheme (Amendment) Regulations 2016 would introduce the 'Fair Deal for Staff Pensions' for those staff in the LGPS who were compulsorily transferred to an external service provider.
- 8.2 The Chair sought clarification regarding higher contributions costs and Ms Stacey confirmed that any higher contribution costs would have be met by the employer. The Chair requested that the consultation material should be circulated to members for feedback.

Action: Julie Stacey to circulate the consultation paper to members.

RESOLVED to:

1. Note the report
2. Agree to respond to consultation with the draft to be cleared by the Chair of the Committee and Group Director, Finance and Corporate Services

9 ANNUAL REPORT OF THE PENSIONS COMMITTEE 2015-16

- 9.1 Rachel Cowburn, Project Account/Manager introduced the report detailing the role of the Pensions Committee and summarising the key activities and achievements in 2015/16 that demonstrated how the Committee had fulfilled its role effectively acting in its capacity as quasi-trustees of the Council's Pension Fund.

RESOLVED to note the contents of the report.

10 PENSION FUND ADMINISTRATION ANNUAL REPORT 2015/16

- 10.1 Julie Stacey, Head of Pensions Administration introduced the report which outlined the work undertaken by the London Borough of Hackney and the performance of the Pension Fund's administrator Equiniti Pensions Solution in regard to the administration of the LGPS Hackney Pension Scheme for the financial year 2015/16.

RESOLVED to note the contents of the report.

11 PENSION FUND BUSINESS PLAN 2016-19

- 11.1 Chris Ellmore, Treasury and Banking Manager, introduced the report relating to the Pension Fund Business Plan for the period covering 2016-19 including a draft plan of work for the Pensions Committee and communications plan for the current financial year 2016-17. Mr Ellmore highlighted the work undertaken on reconciliation of the guaranteed pension.
- 11.2 The Chair referred to the Committee's proposed work plan 2016/17 and indicated that some of the training topics agreed with the Committee had not been incorporated in the plan, and queried whether it was necessary to report on the Governance self- assessment twice in the municipal year. Mr Honeysett stated that the programme had been produced following feedback from a formal assessment of the Committee's training and Ms McWilliam added it would be possible to review the training plan.
- 11.3 The Chair indicated that the training programme should focus on topics such as infrastructure and the impact of forthcoming changes in legislation.

RESOLVED to:

- 1. Approve the Business Plan for the Pension Fund for 2016-19**
- 2. Approve the draft work plan for the Pensions Committee for the Financial Year 2016-17**
- 3. Approve the draft Communications Plan for 2016-17**

12 GOVERNANCE -PENSIONS COMMITTEE SELF ASSESSMENT AND ASSESSMENT OF ADVISERS

- 12.1 Rachel Cowburn, Project Account/Manager, introduced the report covering the self-assessment of Pension Committee members and a review of advisers to the Committee.

RESOLVED to note the contents of the report.

13 ANY OTHER BUSINESS WHICH IN THE OPINION OF THE CHAIR IS URGENT

- 13.1 There was no other urgent business.

14 SUPPLEMENTARY PAPER- IMPACT OF THE 2016 EUROPEAN UNION REFERENDUM RESULT

- 14.1 Rachel Cowburn, Project Account/Manager, introduced the report which provided an overview of the implications of the 23rd June 2016 European Union (EU) referendum results in both economic and political terms. She stated that the results had led to volatility in the financial markets which would have long term implications for the Pension Fund. Mr Johnson added that uncertainty made the markets more volatile and predicted that there would significant falls in gilt yields and low growth which could impact on the funding and liabilities of the Fund.
- 14.2 Councillor Desmond asked how scheme members could be reassured that their pensions would not be affected. Ms Cowburn stressed that the scheme was a

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defined guaranteed pension fund with pensions guaranteed for scheme members. Mr Williams added that officers would be closely monitoring the impact from the referendum results on the Pension Fund.

- 14.3 Councillor Moule enquired with regard to the total assets invested in gilts and whether the Council had a de-risking strategy. Mr Johnson said that a small percentage of the Fund's assets were held in gilts and that the Council had adopted a de-risking policy. The Chair indicated that the current level of liabilities would not automatically trigger de-risking.

RESOLVED to note the contents of the report.

Duration of the meeting: 6.30 -8.35pm

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