

## MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

MONDAY, 4TH DECEMBER, 2017

<b>Councillors Present:</b>	<b>Councillor Robert Chapman in the Chair</b> <b>Cllr Michael Desmond (Vice-Chair),</b> <b>Cllr Feryal Demirci and Cllr Kam Adams</b>
<b>Co-optee</b>	<b>Jonathan Malins- Smith</b>
<b>Apologies:</b>	<b>Councillor Geoff Taylor and Councillor Patrick Moule</b>
<b>Officers in Attendance:</b>	Ian Williams (Group Director of Finance and Corporate Resources), Michael Honeysett (Director of Financial Management), Rachel Cowburn (Head of Investment & Actuarial Services) and Stephen Rix (Legal Services)
<b>Also in Attendance:</b>	Michael Ferguson - AON Andrew Johnston - Hymans Robertson Kevin Cullen - London CIV Hackney Divest Representatives (2)

### **1 Apologies for Absence**

1.1 Apologies for absence were received on behalf of Councillors Taylor and Moule.

### **2 Declarations Of Interest - Members To Declare As Appropriate**

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

### **3 Consideration Of The Minutes Of The Previous Meeting**

**3.1 RESOLVED that the minutes of the meeting held on 11 September 2017 were confirmed as a correct record subject to a typographical error.**

#### **Matters arising**

#### **3.2 Pensions Training**

Members asked if the pensions training could be provided separate from the Committee meetings and whether the annual training programme could be submitted at the beginning of the municipal year.

Ms Cowburn explained that the training sessions held at the start of Committee meetings ensured high member attendance and that this training should continue. However, it would be possible to provide an additional dedicated training day outside of the meetings covering areas that would assist members with future investment decisions. It was imperative that the majority of the Committee members attended the dedicated training day to benefit from it. Ms Cowburn stated that a questionnaire would be circulated to members to consult on the date and contents of the additional training. Ms Cowburn indicated that an outline training programme would be submitted at the next meeting in March 2018.

### 3.3 Hackney Divest

3.3.1 The Chair invited representatives of Hackney Divest to address the meeting. The representative expressed her disappointment at the Pension Fund's increased investment in fossil fuel from £42m to £75m since 2015 and in particular the investment being held in Shell, which had been linked to environmental and human rights violations in Nigeria. Concern was expressed that this increase was in contradiction with Hackney's commitment to disinvest from fossil fuel and enquired with regard to the process for monitoring the impact of increases on the disinvestment commitment. In addition, they were disappointed at the significant delay in responding to a FOI request in relation to how much of the Fund's investments were in fossil fuel and the lack of dialogue regarding a joint event on disinvestment with other London Borough.

3.3.2 Ms Cowburn clarified that the rise in value to £75m had been the result of an increase in asset values of existing investments rather than any additional investments in fossil fuel. She explained that the Fund's equity assets were held across four mandates and that the information had been provided for the two global active segregated mandates. This data showed that whilst the value of the investments had increased the Fund held fewer stocks. Also, the Fund's 25% allocation in the FSTE All Share Index Tracker was a key contributor to the increase in the Fund's value due to its exposure to oil and gas and that Members would be considering proposals to reduce the index tracker's current allocation during the private session. Ms Cowburn undertook to provide Hackney Divest with further information in relation to the FOI request.

3.3.3 Ms Cowburn stated that the investment in Shell had been held within two mandates for several years and over the years these stocks had reduced. The Chair added that the Committee would be considering the proposals to change the equity allocations in line with the Pension Fund's disinvestment strategy and the changes would be announced in 2018.

3.3.4 With regard to measuring the disinvestment, Ms Cowburn said that as part of the disinvestment strategy a comprehensive assessment of Fund's active portfolios would also be carried out on a three year cycle with the actuarial valuation from summer 2019 and this would be used to measure the progress made towards achieving the targets.

3.3.5 Mr Williams stated the Council received over 2,000 FOI requests a year and due to an administrative oversight the Pensions Team did not receive this request. The Chair apologised on behalf of the Council for the delay in responding to the request.

3.3.6 The Chair indicated that he would liaise with Hackney Divest regarding dates for a meeting to discuss disinvestment.

#### 4 Training - Transition and Risk Management

4.1 Rachel Cowburn introduced the report and training to assist Members in meeting the standards set out in the CIPFA Knowledge and Skills Framework and the Fund's training policy.

4.2 Andrew Johnston, Hymans Robertson delivered a presentation on the approaches to asset transitions and the management of associated risks. Below is an overview of the key areas covered:

Current asset allocation slippage during transition to target asset allocation.

- Complexity
- Planning/Project Management
- Risk Management
- Execution Expertise
- Independence
- Transition costs
- Explicit costs
- Commissions
- Taxes
- Fees (redemption, custody)

Implicit costs

- Market Impact
- Bid/ask spread
- Opportunity cost

How to measure cost- implementation shortfall

- Difference between actual portfolio performance compares to instantaneous cost free switch into target portfolio
- Implementation shortfall
  - Costs (commission
  - Market impact
  - Opportunity cost

When to use a transition manager

- Pooled to pooled
- Interim management
- Segregated portfolio trading
- Overlays
- First we need to consider the details
  - liquidity of asset classes
  - size of transition
  - out of market risk
  - in specie limits
  - requirement for project management
  - in specie limits
  - requirement for project management
  - spread costs/pooling specific – cost sharing; other Fund transition activity

Criteria for a good transition manager

- Trading capability
- Project management expertise
- Capacity/dedicated resource/ regional back-up
- Strategic ability
- Risk controls/management
- Technology
- Reporting
- Conflicts? (structure- broker/custodian/asset manager/other)
- Fees

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

## **5 Active and Passive Equity - Transition Approach (EXEMPT)**

**RESOLVED** by Virtue of Paragraph 3 Part 1 of schedule 12A of the Local Government Act 1972 this report is exempt because it contains Information relating to the financial or business affairs of any particular person (including the authority holding the information) and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

## **6 Quarterly Update**

6.1 Rachel Cowburn introduced the quarterly update report.

6.2 Mr Malins- Smith commented on the Fund's high cash and cash equivalent holdings. The Chair enquired about the impact of the funding level of 83% on the de-risking strategy. Mr Johnston stated that the Pension Fund had a de-risking strategy and this could be triggered at the specified set funding levels.

6.3 Members expressed concern at the identified risk relating to the administrative work. Ms Cowburn said that this risk had been associated with the implementation of the new payroll system and had been identified as a significant issue due the implications for scheme members. This issue had been escalated due to the potential impact on scheme members' data. Mr Malins-Smith enquired about the impact on members with AVC contracts and Ms Cowburn explained that the risk lay with the individual member.

6.4 The Chair reminded Members that the payroll issue would be raised at a meeting to be held with relevant Cabinet Member, Head of Pensions and Head of HR.

**RESOLVED**

## **7 London CIV Update**

7.1 Rachel Cowburn introduced the report. Kevin Cullen, a representative from London Collective Investment Vehicle (LCIV) provided an update on the London CIV as follows:

Organisational chart

- £6.1bn (as at 30.11.17) AUM cross 10 Sub –funds
- £6.9bn AUM in passive outside the CIV platform

- 2 further equity sub-funds launched awaiting funding
- 5 fixed income sub-funds in the pipeline
- Work on first infrastructure investment continues

#### Fund development

- Current timeline- 2017 Last of the CQC based sub-funds opened;
- Reporting – Client Portal, Monthly, Quarterly, systems procurement Q1 2018

7.2 In response questions from Members regarding the London Collective Investment Vehicle (LCIV) update, Mr Cullen stated that the largest assets were held by Blackrock. The set up and running of new sub-funds were often delayed due to operational issues. Mr Cullen said that the LCIV reviewed and monitored its fund managers every quarter and had direct access to the managers including information on their performance. LCIV was currently in the process of standardising its literature on fund managers and their performance and this information was available to all members. The LCIV Board was reviewing the findings of the recent London CIV Governance Review report and action was being taken to address the issues identified including the appointment of a new of Chief Executive and other personnel.

7.3 Cllr Desmond enquired whether there was a performance league table for pools and LCIV's position on this table and whether there were any measures for changes in currency due to the volatility in markets when Brexit occurred. Mr Williams indicated that there was no league table for collective investment vehicles and that there would be significant challenges in comparing pools. However, there were monthly cross pool working group meetings for officers to gather and exchange ideas. Mr Cullen added that the LCIV did not currently hedge against currency. Cllr Demirci asked whether there were any processes in place for local oversight and accountability at the LCIV. Mr Williams explained that the LCIV was established voluntarily with all political parties well represented in the working groups and that its members did not consider pensions a political issue. The Joint Committee comprised of representatives from all political parties and was the body overseeing the LCIV. LCIV provided updates to this Committee.

7.4 In response to a question from the Chair, Mr Cullen said the London CIV took into consideration ESG issues as one of the factors when appointing Fund Managers.

7.5 An officer asked whether the LCIV had any formal arrangements in place for members to take a collective view on voting preferences and whether the CIV's investment strategies were restricted to the UK investments. Mr Cullen stated that there could be scope for getting collective voting preferences in the future if members came to a consensus view. With regard to infrastructure investments, Mr Cullen stated that this issue was already on the agenda for discussion by the LCIV working group.

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

## **8 Pension Fund Risk Register**

8.1 Rachel Cowburn introduced the updated Pension Fund Risk Register, which detailed potential significant risks to which the Fund is exposed and also details the controls in place to manage these risks.

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

## **9 Pension Fund Communications Policy Statement**

9.1 Rachel Cowburn introduced the report providing an updated Communications Policy Statement for the Pension Fund. She advised that the statement had been significantly revised to comply with the introduction of the General Data Protection Regulation in May 2018.

9.2 Mr Malins- Smith enquired about the implications of a member objecting to data being held on them following the introduction of this legislation. Ms Cowburn advised that as a member of the LGPS the Council were obliged to collect scheme members' data as part of the LGPS scheme.

9.3 Cllr Demirci stated that a more proactive approach had to be taken by the Communications Team to publicise good news and address misinformation on social media in order to limit reputational damage. Ms Cowburn stated that response times were longer as facts had to be checked to ensure that the correct information was provided. However, officers were considering full disclosure on an annual basis to reduce the number of FOI requests. Mr Williams advised that the team would liaise with the Communications Team to consider ways of encouraging greater engagement and the dissemination of pension related information.

9.4 The Chair commented that the Council had to take a more proactive approach in responding to adverse publicity to minimise reputational damage.

### **RESOLVED to approve the updated Communications Policy Statement**

## **10 Pension Fund Treasury Management Strategy 2018/19**

10.1 Rachel Cowburn introduced the report setting out the Annual Treasury Management Strategy for the Pension Fund for 2018/19. The Chair sought clarification regarding A-rated organisations and Ms Cowburn indicated that a list of organisations with ratings could be provided.

### **RESOLVED to:**

- 1. Agree the Treasury Management Strategy for the Pension Fund for 2018/19**
- 2. Delegate responsibility for Pension Fund treasury management to the Group Director, Finance and Corporate Resources, including the authority to add or remove institutions from the approved lending list and amend cash and period limits as necessary in line with the Council's own creditworthiness policy.**

## **11 Any other business which in the opinion of the Chair is urgent**

11.1 There was no other urgent business.

## **12 Exclusion of The Press And Public**

**Monday, 4th December, 2017**

**RESOLVED**

That the press and public be excluded from the proceedings of the meeting during consideration of the Items 5 and 13 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.

**13 Consideration Of The Exempt Minutes Of The Previous Meeting**

**RESOLVED that the exempt minutes of the meeting held on 11 September 2017 were confirmed as a correct record.**

**Duration of the meeting: 6.30 - 9.10 pm**

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