

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

WEDNESDAY, 12TH SEPTEMBER, 2018

- Councillors Present:** Councillor Robert Chapman in the Chair
Cllr Michael Desmond (Vice-Chair),
Cllr Kam Adams, Cllr Polly Billington and
Cllr Rebecca Rennison
- Co-optee** Jonathan Malins- Smith
- Apologies:** Councillor Ben Hayhurst
- 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) and Sean Eratt (Legal Services).
- Also in Attendance:** Henry Colthurst - Pension Board
Andrew Johnston - Hymans Robertson
Karen McWilliam – AON

1 Apologies For Absence

1.1 Apologies for absence were received from Councillor Hayhurst.

1 Declarations of Interest - Members to declare as appropriate

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

2.2 Councillor Adams declared a non-pecuniary interest as his partner was a member of the LGPS.

2.3 Karen McWilliam and Andrew Johnston declared a pecuniary interest in agenda item 11- Extension of Actuarial Services and Benefits Consultancy contracts.

3 Consideration of The Minutes of The Previous Meeting

RESOLVED that the minutes of the meeting held on 23 July 2018 were confirmed as a correct record.

4 Investment Strategy - Next Steps

4.1 Rachel Cowburn introduced the report detailing both liquid and illiquid opportunities available to institutional investors across the alternative credit asset class. Furthermore, a recommendation for the Pension Fund to make an allocation of

10% of the Fund's equity portfolio to alternative credit investment whilst also considering changes in the market environment since March 2017. It was emphasised that there was approximately £140m for re-allocation and a seminar would be arranged for Members providing more information on alternative credit strategy. There would also be further consultation with Members on the proposed options prior to the next meeting on 12 December 2018.

4.2 Andrew Johnston, Hymans Robertson, delivered a training session on alternative credit investment and a brief outline of the areas covered are below:

Where does alternative credit fit:

- Growth
- Short term and long term income
- Protection

Income asset universe – Return, risk and illiquidity

The strategic role of alternative credit

- Deliver absolute return with some predictability

Hunt for yield

The reliability of income

Alternative credit – types of assets included alongside traditional assets.

Multi- Asset Credit (MAC)

- What is multi –asset credit

Direct Lending

- What is direct lending - Issuer characteristics, capital structure, liquidity/term and loan purpose
- Direct lending: The structure - Debt and Equity capital

4.3 Councillor Billington enquired about the external factors influencing the proposed allocation to alternative credit and referred to the default analysis of ABS and the discrepancy in the default rate for the Dutch/Italian/Spanish RMBS. Mr Johnston stated that the proposals to invest in alternative credit were based on the future potential returns of the equity portfolio. The returns for equities had been positive so far however, this growth was not expected to continue in the future. Members were requested to consider the transfer of 10% of the Fund's passive equities portfolio to alternative credit to meet the Fund's objective of achieving full funding. With regard to the default rates, Mr Johnston stated that he would provide the correct rates following the meeting.

4.4 The Chair asked how the proposed allocation would impact on the Fund's de-risking strategy and whether there were other alternative assets such as bonds. Ms Cowburn stated that the funding level had increased from 77% but in recent months the level had ranged from 80% to 85%. In the previous quarter the estimated funding level of 86% had been revised down to 80% following submission of data. It was emphasised that bonds and gilts were fixed income securities that focused on liability whereas alternative credit had a potential return ranging from 4% to 6%. In addition alternative credit investments were predicted to outperform in the future and this investment class was in line with the Pension Fund's objectives.

4.5 In response to a question from Mr Malins-Smith, Mr Johnston confirmed that bonds rated higher than equities.

4.6 Councillor Adams enquired about the probability of a default, the open ended and closed ended investment structure and whether other Pension Funds had

Wednesday, 12th September, 2018

invested in alternative credit. Mr Johnston explained that the economy in Western Europe was strong and as a result the default rate for alternative credit was low. Multi-asset credit are defined as a liquid asset and open ended investment. Private debt investments were considered close ended investments lasting for a period of 5 to 7 years. Direct lending opportunities had resulted from banks deleveraging and providing relatively attractive medium-term opportunities for investors lending to corporations. More Pensions Funds had been investing in alternative credit leading to a growth in this asset class and it was now considered an attractive investment opportunity.

4.7 Councillor Desmond requested that further information relating to alternative credit and the strategic reason for this investment be provided at the seminar. Mr Johnston stated that the purpose of the seminar was for the Committee to consider whether alternative credit would be a suitable strategy for the Fund and whether it would deliver returns.

4.8 Mr Colthurst expressed concern at the proposed reduction in the equity portfolio as the Fund was a long term investor and also the potential loss to the Fund from disinvesting from fossil fuel investments. It was suggested that the Fund could consider investing in 70% growth assets and 30% income assets. Mr Johnston stated that the Fund was currently cashflow positive and re-investment was necessary to generate income and reduce the funding gap.

4.9 Members agreed in principle to transfer 10% of the equities portfolio to alternative credit investments and that consideration should also be given to alternative investments such as high yield bonds and commercial real estate debt.

RESOLVED:

Approve in principle the below approach to implementation, following the decision in March 2017 to make a 10% allocation to alternative credit to be funded from the Fund's global passive equity portfolio:

- a. consideration of illiquid private debt strategies as a suitable approach to meet the Fund's de-risking aims**
- b. consideration of more liquid alternative credit strategies as a means of managing the drawdown requirements of an illiquid strategy**

5 Alternative Credit Options

5.1 Rachel Cowburn introduced the report on investment approaches to meet the Fund's current strategic aims of managing asset risk and reducing the Fund's exposure to equities. Ms Cowburn indicated that the companies listed at paragraph 7.6 of the report should be deleted as this information had not been made public by other London boroughs. Mr Eratt advised that the report had been published and the information was now public.

5.2 Councillor Desmond sought clarification regarding the average credit rating B+. Mr Johnston stated that B+ was considered an average rating for this portfolio and safe investment whilst a BB+ rating was below investment grade.

RESOLVED to:

Consider and note the report and the next steps in relation to the review of the private debt strategies available via both the London CIV and Project

Monument as the preferred approach to selecting a suitable private debt strategy.

6 Pension Fund Accounts

6.1 Rachel Cowburn introduced the post audit Annual Report and Accounts of the London Borough of Hackney Pension Fund for the year ended 31st March 2017. It was highlighted that the administration costs had increased from approximately £5m to £8m, which factored in the backdated contract pricing and inflation costs.

6.2 Mr Malins-Smith referred to page 61 of the report and enquired about the varied contributions rates paid by some members. Ms Cowburn stated that the contributions rates were set nationally and was currently at approximately 6.5%. The contribution rates for each employer were calculated based on the number employees within an organisation and the rates could also vary if an organisation had more higher earners.

6.3 Councillor Billington enquired in relation to the oversight and increase in administration costs. Ms Cowburn stated that the oversight had occurred due to a missed indexation price and that the administration costs included the backdated contract pricing. Officers were in the process of finalising the additional costs and this would impact on the administrative costs for 2018/19.

6.4 The Chair indicated that there would be some minor amendments to the Chair's introduction prior to publication.

RESOLVED

- 1. Note the final version of the Pension Fund Annual Report and Accounts**
- 2. Approve publication and distribution to interested parties.**

7 Pensions Committee - Annual Report of the Chair

7.1 Rachel Cowburn introduced the report detailing the role of the Pensions Committee and summarising the key activities and achievements in 2017/18. This demonstrated how the Committee had fulfilled its role effectively acting in its capacity as quasi-trustee of the Council's Pension Fund and the report would be presented to full Council in due course.

RESOLVED to note the contents of the report

8 Quarterly Update

8.1 **NOTED** Appendix 1 within the supplementary papers.

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

8.3 Ms Cowburn reported that approximately 650 Annual Benefits Statements for active scheme members had been issued within the deadline whilst approximately 6,500 statements had yet to be issued. In addition, the issues of submitting timely and accurate data to the Pension Fund had been an ongoing and significant issue for the Council. Since the implementation of the iTrent payroll system in July 2017 and the

Wednesday, 12th September, 2018

ongoing issues with LGPS data, discussions had taken place with relevant Heads of Services and the quality of data received in the previous quarter had improved. It was believed that the underlying issues would be resolved in the near future. Mr Honeysett added that officers in HR Payroll and Pensions were working together to develop a new interface that would resolve the data issues.

8.4 The Chair reminded Members that at a previous meeting the Head of HR had committed to resolving the HR issues related to the quality of data.

RESOLVED to note the contents of the report.

9 Training Policy Review

9.1 Rachel Cowburn introduced the report considering potential improvements and changes to the Pension Fund's training policy which applied to Pensions Committee members and Board members, and senior officers responsible for managing the Fund. The potential changes included increasing the breadth and depth of the training on offer whilst ensuring that it remained accessible to all Members. Ms Cowburn added that the reclassification of the LGPS as a Retail client under MiFID II would have implications for the Pension Fund and all pensions training would now have to be recorded and disclosed on a regular basis. Officers had also explored online pensions training provision but no suitable provider had been identified.

9.2 Discussion ensued on how the current training could be improved. Members expressed that the contents and delivery of pensions training had to reflect Member's skills and knowledge with fewer use of jargons. It was suggested that Members have an individual training plan to reflect their different learning approaches and individual training needs. Members suggested a points approach to the training similar to CPD courses and an annual training programme to be circulated at the beginning of the municipal year outlining the areas to be covered during each training session. Members also indicated that the training material provided at meetings should also be made available electronically.

9.3 Ms Cowburn emphasised that the benefits of delivering training at Committee meetings ensured high attendance at training sessions and Member's gaining the appropriate knowledge and skills. Ms Cowburn stated that the Committee had to make best use of the limited training time available and that consideration would be given to carrying out a training needs assessment and analysis to identify Member's knowledge and skills and then produce individual training programs.

9.4 Mr Colthurst, Pensions Board, suggested listing core skills, identifying gaps in knowledge and skills and encouraging more online training. Ms Cowburn stated that The Pension Regulator offered an online Trustee toolkit training for trustees.

9.5 A member enquired whether there were any an accredited pensions courses for trustees. Ms Cowburn stated that there were no formal qualifications for pensions training.

9.6 The Chair reiterated that the pensions training policy had to be based on members' knowledge and skills. Mr Williams emphasised that a meeting had been arranged for next week to enable Members to feedback on future training and an update would be provided.

RESOLVED

- 1. Adopt the recommendations for improvements to training delivery set out in Section 8**

2. **Consider the options put forward in section 9 to increase the depth and breadth of training available, and agree which should be taken forward and how these should be incorporated into the Policy.**

10 The Pensions Regulator (TPR) Code of Practice Compliance

10.1 Rachel Cowburn introduced the report relating to the updated Compliance Checklist for the London Borough of Hackney Pension and advised that the TPR's Code of Practice for Public Service Pension Schemes had come into force on 1st April and all pension schemes had to consider compliance of the code.

10.2 Mr Colthurst commented that the list was too comprehensive and should be reduced to eleven key risks and updates provided regularly. Ms Cowburn stated that greater focus had been placed on good governance to minimise key risks involved in managing the Pension Fund however, the checklist could be reviewed and the information could be presented in a dashboard format. It was noted that an annual risk register was also submitted at the Pensions Committee.

RESOLVED to note the Code of Compliance Checklist and where further work is required and being undertaken.

(Karen McWilliam (AON) and Andrew Johnston (Hyman Robertson) declared a pecuniary interest and left the room during consideration of agenda item 11)

11 Extension of Actuarial Services and Benefits Consultancy contracts

11.1 Rachel Cowburn introduced the report recommending the approval of a two year extension for both the Fund's Actuarial Services contract and Benefits and Governance Consultancy contract. The option to extend was being utilised primarily to avoid a tender process for a new Fund actuary during the triennial valuation period. In addition the Fund's Investment consultancy contract was being re-tendered under the National LGPS Framework for Investment Consultancy Services in 2019/20 instead of a rolling contract.

11.2 Mr Colthurst enquired about the initial contract and further extension option of 3 years. Ms Cowburn stated that under the framework the option available had been a 4 year contract with an option to extend for a further 2 years.

11.3 In response to a question from the Chair, Ms Cowburn said that the investment consultancy would be re-tendered under a new framework.

RESOLVED

- **Approve the extension of the Actuarial Services Contract with Hymans Robertson for an additional two years to 31st October 2020**
- **Approve the extension of the Benefits & Governance Consultancy Contract with Aon for an additional two years to 31st October 2020**
- **Note plans to re-tender the Investment Consultancy contract during 2019-20**

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 meeting during consideration of the 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 23 July 2018 be confirmed as a correct record.

Duration of the meeting: 6.30pm

Rabiya Khatun
Governance Services
020 8356 6279