

Pension Fund Sub-Committee

Minutes

Tuesday 11 February 2020

PRESENT

Committee members: Councillors Iain Cassidy (Chair), Rebecca Harvey, PJ Murphy and Matt Thorley

Co-opted members: Michael Adam

Officers: Phil Triggs (Director of Treasury & Pensions), Matt Hopson (Strategic Investment Manager), Timothy Mpofu (Pension Fund Manager)

Guests: Kevin Humpherson (Deloitte)
Barry McKay (Barnett Waddingham)

1 Member of the public was also present

1. MINUTES OF THE PREVIOUS MEETING

The Chair congratulated Matt Hopson (Strategic Investment Manager), and Timothy Mpofu (Pension Fund Manager) for passing their Chartered Financial Analyst (CFA) level one exams.

RESOLVED:

THAT, the minutes of the meeting held on 26th November were approved and signed by the chair.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Rebecca Harvey.

3. DECLARATIONS OF INTEREST

There were no declarations of interest.

4. TRIENNIAL VALUATION

Barry McKay (Barnett Waddingham), the Pension Fund's actuary provided a presentation of the final results for the 2019 triennial actuarial valuation and outlined the following key points:

- Outlined the purpose of the valuation and noted that this was required by Regulations.
- The Fund achieved a strong investment performance.
- The funding level for the Council (as a single employer) stood at 95%, improving from 84% previously.
- Each employer's funding position and liabilities were calculated separately to set individual employer contributions rates.
- Each assumption would be reviewed and revised based on recent experiences and market conditions every three years.
- The total contribution rate payable by employers consisted of two elements: the primary and secondary rate.
- The discount rate was derived through looking at different asset classes to establish the best investment rate.
- There had been a slight decline in the improvement of longevity rates since 2011. The assumptions had been revised to reflect the current trend.
- A summary of the key assumptions which included salary increases and discount rates were provided.
- Different assumptions were taken into consideration for the section 13 valuation.
- There was some uncertainty around the effect of the McCloud and Sargeant cases and the cost cap on future and historic LGPS benefits structure.

Michael Adam, Co-opted Member asked what the average funding level across the LGPS was. Barry McKay explained that a briefing note would be circulated to the Sub-Committee on this.

Action: Barry McKay

Councillor PJ Murphy asked for clarification to be provided around how much deficit the Council still had to pay. In response Barry McKay said that the Council still had a £49m deficit to pay over a 17-year period. In addition, if all the assumptions were correct the Fund would be fully funded after 17 years. However, the hope was that the investment returns should enable this to happen sooner.

Phil Triggs, Director of Treasury & Pensions queried when the next valuation would take place. Barry McKay noted that the next valuation would take place in March 2022. If a 4-year cycle was put in place this would commence in 2024 to align all public sector schemes.

RESOLVED:

THAT, the Sub-Committee approved the final 2019 Triennial Actuarial Valuation for the Pension Fund set out as Appendix 1.

5. FUNDING STRATEGY STATEMENT

Matt Hopson (Strategic Investment Manager), noted that the purpose of the Funding Strategy Statement was to establish a clear and transparent strategy on how to meet pension liabilities going forward. In addition, a small

allowance for the McCloud case was bolted on to the liabilities to take a prudent approach.

RESOLVED:

THAT, the Sub-Committee approved the draft Funding Strategy Statement and subject to any comments or amendments, delegated final approval to the Director of Treasury and Pensions in consultation with the Chairman.

6. RESPONSIBLE INVESTMENT POLICY

Timothy Mpofu (Pension Fund Manager) introduced the draft Responsible Investment policy for the Council's Pension Fund, which was attached as Appendix 1 to this paper. The key considerations were noted. The policy document noted the Pension Fund's investment principles whose implementation was outlined on page 78 of the agenda pack.

Members were requested to comment on the investment principles set out in the report and whether they wanted any further information to be added to the document.

Members questioned how Appendix 1 would appear as part of the strategy document. Timothy Mpofu explained that this would be presented as a standalone policy document and would be published on the Council's website.

Councillor PJ Murphy noted that the Council had a primary fiduciary responsibility, and this needed to be included as part of the investment principles. Phil Triggs explained that this was included as part of the Investment Strategy Statement. However, Officers could add this to the investment principles and redraft the current document as per the request of the Sub-Committee. Members requested that paragraph 2 on page 80 of the agenda pack be reviewed and amended to reflect the comments made by the Sub-Committee.

The Chair requested that some figures relating to the Fund's carbon exposure be included under the policy implementation principle. i.e. to clearly highlight what the Council had achieved to date and the level of impact this had on the Fund's exposure to passive equities. In addition, it was requested that a paragraph outlining that the Council had declared a climate emergency and the consequences this had on the Fund, including its responsibility around carbon neutrality be added.

Members queried whether the Environmental, Social & Governance (ESG) report could be published on the Council's website to raise the interest of pensioners. Phil Triggs said that key information around the achievements made by the Council around ESG principles can be included as a stand-alone document as part of the report.

The Chair requested that each ESG principle be broken down to present each principle individually and not as a whole. In addition, Members noted that there was a great deal of positive information received from Managers in

relation to their contributions made towards ESG factors and requested that some of the highlights be included as part of the document.

Officers noted that these documents could be brought back to the Sub-Committee every quarter for comments and amendments. Members requested that an updated version with all the suggested feedback to be brought to the next Sub-Committee for approval.

Action: Phil Triggs

RESOLVED:

THAT, the Sub-committee noted and commented on the report with a view of enabling officers to formalise and finalise the policy once the suggested feedback was incorporated to the document.

7. INVESTMENT STRATEGY STATEMENT & ASSET ALLOCATION

Timothy Mpofu (Pension Fund Manager), introduced the report and provided an update of the draft Investment Strategy Statement (ISS) which was included as Appendix 1 to this paper.

Councillor PJ Murphy felt that the Investment Strategy Statement was far more comprehensive than the previous statement and requested that officers provided an overview of the changes. In response Timothy Mpofu outlined the changes, noting that the main changes related to section 5 of Appendix.

Timothy Mpofu noted that section 6 of the Appendix made references to the sustainable development goals, including a selection process and ongoing engagement plans were outlined. A section in relation to training was also incorporated.

Councillor PJ Murphy asked whether the Council actively engaged with the Local Authority Pension Fund Forum (LAPFF). Officers noted that to date we only had Officer engagement. However, members of the Sub-Committee could be invited to LAPFF meetings in the future. Members requested that a briefing note on LAPFF be drafted and circulated to the Sub-Committee.

Members requested that section 6.5 of the Appendix be made more robust to reflect that the Council was engaging with companies to reduce their exposure to fossil fuels.

ACTION: Timothy Mpofu

RESOLVED:

- The Sub-Committee commented on the Investment Strategy Statement (ISS) and delegated authority to the Director of Treasury and Pensions in consultation with the Chair to publish the final ISS.
- The Sub-Committee commented on the investment beliefs within the questionnaire as prepared by the investment advisor.

8. QUARTERLY PERFORMANCE UPDATE

Timothy Mpofo (Pension Fund Manager), provided an update and noted that the Pension Fund Sub-Committee appointed Aberdeen Standard Investments (ASI) as the Pension Fund's new private multi-asset credit manager. It was agreed that a commitment of £55 million would be made with the capital expected to be called in the first quarter of 2020. In preparation for this investment the Pension Fund would start to liquidate £56 million of assets from its passive equity strategy in four tranches to spread the timing risk.

Members noted the transition timeline and approved the trade for selling down equities.

Timothy Mpofo provided a summary of the Pension Fund's overall performance for the quarter ended 31 December 2019 and noted that the value of the investments had increased, however the liabilities needed to be updated in line with the results of the Triennial Actuarial Valuation. The ESG report had been updated and ESG values had been incorporated. Key highlights were also added and broken down by Environment, Social and Governance factors.

Councillor PJ Murphy said that the ESG report didn't show in detail the level of work that had been carried out by the Council towards achieving its carbon neutrality target by 2030. He requested that further information regarding the progress made to date be included to the report to monitor progress.

Kevin Humpherson (Deloitte), provided a breakdown of the Fund's performance by Manager as at 31 December 2019. During October 2019, the Fund invested £20m into the LCIV Global Bond Fund with £10m from the LGIM Sterling Liquidity Fund and £10m from the Fund's bank account. In addition, the Sub-Committee committed to allocate £55m to Aberdeen Standards Investments Multi-Sector Private Credit Fund with the first close set to take place in Q1 2020.

Kevin Humpherson (Deloitte), explained that he had met with Aviva's Head of Infrastructure. He outlined the recent governance changes and noted that a briefing note would be circulated to the Sub-Committee. In addition, Deloitte would be meeting with M&G in light of the departure of Ben Jones and subsequent independent review of the firm's culture and behaviours.

Councillor PJ Murphy queried if the Council should be looking at other options. In response Kevin Humpherson said that any review would take into account the Fund's long-term strategic asset allocation, including whether the underlying long lease property allocation was still appropriate.

RESOLVED:

THAT, the Pensions Fund Sub-committee noted the and commented on the report

Meeting started: 7:00pm
Meeting ended: 21:15pm

Chair

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