

Pension Fund Sub-Committee

Minutes

Thursday 12 September 2019

PRESENT

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

Co-opted members: Michael Adam

Officers: Matt Hopson (Strategic Investment Manager), Timothy Mpofo (Pension Fund Manager) and Amrita Gill (Committee Co-ordinator)

Guests: Kevin Humpherson (Deloitte)

1. **MINUTES OF THE PREVIOUS MEETING**

RESOLVED –

THAT, the minutes of the meeting held on 9 July 2019 were approved and signed by the chair

2. **APOLOGIES FOR ABSENCE**

Apologies for lateness were received from Councillor Rebecca Harvey.

3. **DECLARATIONS OF INTEREST**

There were no declarations of interest.

4. **QUARTERLY UPDATE PACK**

Kevin Humpherson, Deloitte noted that in July 2019, Avia wrote to all investors to inform them that the Aviva Infrastructure Income Fund's (AIIF) Net Asset Value (NAV) would be restated dating back to 30 September 2018. Meetings had been arranged with Aviva to ascertain the issue. They were currently in a long-standing dispute with a construction counterparty regrading construction delays and cost overruns. As this was an ongoing legal dispute, Aviva were limited as to what information they could provide. Deloitte confirmed that they would continue to monitor developments regarding this issue and provide updates accordingly. Additionally, it was noted that Deloitte continued to rate Aviva Investors positively for its infrastructure capabilities.

Whilst this use had an impact on investors in terms of NAV performance, there had been no impact on the actual or expected distributions from AIIIF.

Members said that they were disappointed that Aviva didn't raise these concerns at the last Sub-Committee meeting. They felt that this questioned Aviva's governance arrangements and the potential impact this would have on the fund's overall performance.

Timothy Mpofu, Pension Fund Manager, referring to the fund's Environment, Social & Governance (ESG) appendix provided a summary of how the fund was performing in line with its Carbon friendly targets. Subject to the Sub-Committee's approval this would be included as part of the quarterly update pack going forward.

Councillor PJ Murphy requested a review of the funds carbon heavy portfolios. In response Matt Hopson said that a breakdown could be provided to the Sub-Committee. However, the Carbon Friendly investment value would increase from 41% to approximately 53% once the removal Majedie's UK Equity strategy from the fund's portfolio had been completed.

Members were happy for this to be included as an appendix as part of the quarterly update pack. The Chair asked whether the Council had adequate resources to keep this information up to date. In response Matt Hopson explained that officers would refresh this document on a quarterly basis and the more convoluted information would be refreshed annually.

RESOLVED -

THAT, the Sub-Committee noted the contents of this report.

5. LCIV PENSIONS RECHARGE & GUARANTEE AGREEMENT

Matt Hopson, Strategic Investment Manager provided an update on the London Collective Investment Vehicle's (LCIV) pensions recharge and guarantee of liability, currently held by the City of London Corporation as the Local Government Pensions Scheme (LGPS) Administering Authority for the LCIV as an external employer.

Members were updated on the key requirements and technical aspects of the Pensions Recharge and Liability Guarantee. The London Local Authorities requested an independent review of the LGPS pension provision, as well as the possibility of closing the LGPS to new members or lowering the current cap. Furthermore, the Board undertook a remuneration review relating to LCIV staff salaries and LGPS pension provision, requiring shareholder views by 16 September 2019 at its October meeting. The Boards view was that change was required and that keeping the LGPS for existing staff and closing it to new hires was the most appropriate solution. The remuneration policy also needed to be updated to ensure that it provided a framework which was competitive enough to meet its objectives of recruiting, retaining and developing the talented staff required to deliver LCIV's future plans.

Matt Hopson explained that whilst the board was minded perusing the option of closing the scheme to new entrants, it was keen to hear the views of wider stakeholders before taking a final decision. The questions for the consultation were set out in Appendix 3 and these would be considered from each London Local Authority before a decision was made at the October meeting. It was highlighted that the options for the pension scheme and the resolution for this issue would depend on all shareholders signing the Liability Guarantee Agreement. Signatures of the guarantee by all 32 shareholders was critical regardless of the nature of the final decision.

The Sub-Committee agreed that, subject to the LCIV Board agreeing the recommendations to close the scheme to new entrants, they would sign the Pension Recharge and Guarantee agreement.

RESOLVED -

THAT, the Sub-Committee considered the contents of this report with a view to sign the Pensions Recharge and Guarantee of Liability Agreement.

6. INVESTMENT STRATEGY UPDATE

Matt Hopson, Strategic Investment Manager provided an update and noted that the Pension Fund was currently carrying significant excess cash of around of around £30m. The cash was currently not contributing significantly to overall fund returns, some of it should be invested in a return seeking asset class. The Fund was currently underweight in the LCIV Buy and Maintain Bond portfolio, making this asset class the most appropriate place to invest £20m of the excess cash. In addition, the reasons for this recommendation were outlined by officers.

Matt Hopson explained that the allocation for the current Partners Group Multi Asset Credit (MAC) strategy also needed to be considered. Officers said that they would arrange a meeting for the Sub-Committee to meet with potential operators ahead of the next Pensions Fund Sub-Committee in November, with a view to appointing a new manager at the November meeting.

Members commented that they were happy to proceed with the above proposals, including the allocation of £20m in the LCIV Buy and Maintain Bond portfolio. In addition, they were keen for officers to explore alternative opportunities for the current MAC strategy allocation, prior to the next Pensions Fund Sub-Committee.

Matt Hooper, Strategic Investment Manager noted that Ruffer would be invited to the next Pension Fund Sub-Committee to provide a presentation and update the Sub-Committee of their current performance. Furthermore, officers commented that a meeting would be arranged in 2020 with Oak Hill to discuss their fees and current arrangements. However, this was a long-term consideration as this fund was not currently delivering a negative performance.

Councillor PJ Murphy asked how negotiable were Ruffer on their fees. In response Matt Hopson explained that Ruffer were historically high in demand, which did not require them to negotiate on fees. Their Fees are also negotiated centrally by LCIV for all the London Boroughs invested. However, the aim of the meeting would be to provide members with the opportunity to ascertain future arrangements relating to fees with Ruffer.

Councillor PJ Murphy asked whether there was an opportunity to lend some of the Fund's excess cash to the Council for regeneration projects. In response. Matt Hopson explained that the Council would end up paying higher interest to the Pension Fund and it would be more appropriate to explore cheaper alternatives of borrowing. Therefore, this could prove to be a challenging option. There would also be a conflict of interest between the Council and the Pension Fund in terms of the Pension Fund achieving the best possible return.

RESOLVED –

THAT, the Sub-Committee approved the investment of £20m into LCIV Buy and Maintain Bond Fund.

THAT, the Sub-Committee noted the investment strategy training session and considered some of the key areas ahead of the next meeting in November 2019.

7. TRANSITION FROM LCIV UK EQUITY FUND

Matt Hopson, Strategic Investment Manager explained that on 9 July, the Pension Fund Sub-Committee approved the termination of the LCIV UK Equity Fund (managed by Majedie) and transition the assets into the Legal and general (LGIM) MSCI Low Carbon Index-Tracker Fund. To ensure that the transition contracted was implemented appropriately, the team would like to access the LGPS Norfolk Framework for the use of its transition management contract services.

Referring to page 36 of the agenda pack, Matt Hopson explained that it was much more cost effective to carry out the transition through the transition manager than to sell the assets and then reinvest them. However, the Pension Fund was not currently signed up to the framework. To join the framework the fund would need to sign the framework agreement.

The framework agreement had been reviewed by Eversheds Sutherland and the inhouse legal team, with some issue still to be resolved. Clauses around indemnity were brought to the Sub-Committee's attention, prior to the agreement being signed. It was noted that these risks would be highly unlikely to cause any financial loss, in terms of the Council acting negligently. In addition, the framework was well established and in use by many other Local Authority Pension Funds, with no previous instances of concerns raised.

RESOLVED -

THAT, the Sub-Committee approved the appointment of LGIM for the transition of asset process via the transition manager contract contained within the LGPS Norfolk Framework Agreement, subject to the resolving of any outstanding issues with Legal.

8. GOVERNANCE OF LGPS

Matt Hopson, Strategic Investment Manager, provided a brief overview of LGPS Good Governance Report which had been commissioned by LGPS Scheme Advisory Board (SAB). Referring to page 38, Matt Hopson noted the four governance models based on various criteria, including standards, consistency, conflict management, clarity of roles and responsibility, and cost.

The SAB had invited Hymans Robertson to assist in taking forward the next stage of the good governance project. Two working groups would be established to define good governance outcomes and options for the independent assessment of outcomes, including mechanisms to improve the delivery of those outcomes. An options report would be ready for consideration in November 2019. Any proposals agreed by the SAB following the November 2019 meeting would be subject to further consultation with funds, before being put to Ministry of Housing, Communities & Local Government (MHCLG) Therefore, the Council would need to respond to the consultation, however no immediate action needed to be taken at this stage.

RESOLVED -

THAT, the Sub-Committee noted the contents of the report.

9. GLOBAL CUSTODIAN CONTRACT EXTENSION

Matt Hopson, Strategic Investment Manager provided an overview and noted that the Pension Fund custody contract with Northern Trust was due to expire on 30 September 2019. Due to the changing nature of the LGPS, Northern Trust remained the only realistic appointment for London Local Authority LGPS pension schemes. Therefore, officers recommended that the contract be extended for an additional two years up to the period end 30 September 2021 with an estimated annual cost of £32k per annum.

RESOLVED –

THAT, the Sub-Committee approved the appointment of the global custodian, Northern Trust to the LBHF Pension Fund for an additional two years, subject to a review in 2021.

10. EXCLUSION OF THE PUBLIC AND PRESS

The Chair requested for any members of the public and press to leave the meeting room, as all the public reports had been heard and the Committee were then moving onto exempt items.

RESOLVED –

THAT, under section 100A (4) of the Local Government Act 1972, the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined by paragraph 3 of Schedule 12A of the said Act and that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

11. QUARTERLY UPDATE PACK

The exempt elements of this item were noted.

12. LCIV PENSIONS RECHARGE & GUARANTEE AGREEMENT

The exempt elements of this item were noted.

Meeting started: 7:00pm
Meeting ended: 8:30pm

Chair

Contact officer: Amrita Gill
Committee Co-ordinator
Governance and Scrutiny
☎: 07776672845
E-mail: amrita.gill@lbhf.gov.uk