London Borough of Hammersmith & Fulham

Pensions Sub-Committee

Minutes

Tuesday 19 September 2017

PRESENT

Committee members: Councillors Iain Cassidy (Chair), Michael Adam, PJ Murphy and Guy Vincent

Officers: Sue Hands (Interim Finance Manager, Pensions), Peter Worth (Interim Director of Pensions and Treasury), and David Abbott (Scrutiny Manager)

Guests: Hugh Grover (CEO, LCIV), Jill Davys (LCIV), and Kevin Humpherson (Deloitte)

1. MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 20 June 2017 were approved and signed by the Chair.

2. APOLOGIES FOR ABSENCE

Apologies for lateness were received from Councillor Guy Vincent.

Apologies for absence were received from Councillor Nicholas Botterill.

3. DECLARATIONS OF INTEREST

There were no declarations of interest.

4. LONDON CIV UPDATE

Hugh Grover, CEO of the London CIV, gave a presentation on the London CIV. He noted the CIV had been up and running since December 2015. Around 55 percent of H&F's assets were now in the CIV.

Councillor PJ Murphy asked how the London CIV's fees compared to other funds of a comparative size. Jill Davys said CEM Benchmarking showed that fees for similar sized private sector funds were not that different. Private sector funds were structured differently though so it wasn't comparing like with like. The fees in public and private funds were structured very differently – the public sector generally paid more to managers but running costs were lower.

Councillor PJ Murphy noted that infrastructure funds across London were relatively small – he asked if that was behind Government's drive to get LGPS funds to invest in infrastructure. Jill Davys said the Government were keen to get funds to allocate 10 percent to infrastructure but London's fund allocations tended to be a lot lower than that. Councillor Michael Adam said he would be interested to see updated figures because the picture was changing quickly with more funds investing in infrastructure in the last few years.

Councillor Michael Adam asked if it was known how infrastructure would be dealt with – would there be co-investing from boroughs, direct investments, one national pool etc. Jill Davys said there was a cross-pool working group looking at options. Hugh Grover noted that infrastructure had originally been placed further downstream because it was important to get the bulk of assets under management quickly, but now the CIV was hoping to bring that forward a little.

Hugh Grover noted that the LCIV Governance Review was ongoing and would report back in the Autumn through the Investment Advisory Committee and London Councils Leaders' Committee.

The Chair asked whether the CIV was making the fee savings they expected to. Hugh Grover said there would always be a balance between fees and returns - the CIV was focused on getting the best managers at the best price.

Councillor Michael Adam asked to see figures for H&F's overall management costs.

ACTION: Peter Worth

Councillor Guy Vincent asked, from a governance perspective, whether we were at risk of giving up control of the fund to the CIV but retaining responsibility if something went wrong. Hugh Grover said there was some element of risk there but the CIV had the resources to put together a fund management team that could constantly monitor the fund and take action as necessary. There was no guarantee that nothing would ever go wrong but they had far more resource and expertise than any single local authority could provide.

Councillor PJ Murphy asked if the 'investment management costs' chart on slide 30 could be made to be more representative of the actual picture. Hugh Grover said he would look into it.

The Chair asked if the Government was still expecting LGPS funds to ultimately move all of their assets into the CIV in the longer term. Hugh Grover said the Government had sent a strong message that they expected funds to pool.

5. PENSION FUND ANNUAL REPORT

Peter Worth presented the report – noting that the Audit, Pensions and Standards Committee were required to approve the annual Statement of Accounts for the Council by 30 September in accordance with the Accounts and Audit Regulations 2015 and - as part of this process - the Committee had delegated approval of the pension fund accounts to the Pensions Sub-Committee.

Councillor Michael Adam asked whether the management expense figures on page 58 of the agenda included the full benefit of the LGIM mandate. Peter Worth said it only include three or four months. He added that the figures only included fees H&F were contractually liable for - so it didn't include the sub-funds.

Reporting of indirect costs was a key challenge – particularly with the CIV. Officers were working with the LGA and CIPFA to get this right.

Councillor Michael Adam asked if officers could provide annualised costs of fund management. Councillor PJ Murphy added that there was also the value for money question – were we paying reasonable fees. Officers said they would look at reporting for this information going forward.

Councillor PJ Murphy, referring to page 31 of the agenda, noted that H&F's investment performance was slightly under the LGPS average. He asked if that should concern the Sub-Committee. Kevin Humpherson said that was almost certainly due to having a lower than average allocation in equities – the H&F fund was more diversified than average.

RESOLVED
That the Sub-Committee approved the Pension Fund Annual Report for 2016/17.

6. MIFID II INVESTMENT REGULATION

Peter Worth presented the report that outlined the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 (knows as MiFID II) – in particular the risk to the Council as a pension fund administering authority of becoming a retail client by 3 January 2018. The report recommended that the Sub-Committee agree that elections for professional client status should be made on behalf of the Authority immediately.

Councillor Michael Adam asked if the Sub-Committee had to be certified as well as pension fund officers. Peter Worth said they had to provide information on the membership and relevant training.

Councillor Michael Adam asked what happened if the fund was not compliant by the deadline. Kevin Humpherson said the fund managers could face significant fines from the Financial Conduct Authority (FCA). Fund managers would have to disinvest the pension fund's money before 3 January 2018 and give it back.

Councillor PJ Murphy asked if this compliance process added additional costs for the Council. Peter Worth said only in officer time – there were no additional fees associated with the process.

Councillor Michael Adam asked when H&F expected to be done with this process. Peter Worth said it should be completed by the end of November.

Councillor Michael Adam asked officers to liase with our fund managers and keep the Sub-Committee updated on this. Peter Worth said he would provide regular updates on this business critical process. An interim update would be provided within a month.

ACTION: Peter Worth

RESOLVED

1. That the Sub-Committee noted the potential impact on investment strategy of becoming a retail client with effect from 3 January 2018.
2. That the Sub-Committee agreed to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.
3. That the Sub-Committee was aware that in electing for professional client status the Sub-Committee acknowledged and agreed to forgo the protections available to retail clients attached as Appendix 1 to the report.
4. That the Sub-Committee agreed to approve delegated responsibility to the Director of Pensions and Treasury for the purposes of completing the applications and determining the basis of the application as either full or single service.

7. INFRASTRUCTURE INVESTMENT PROPOSAL

Kevin Humpherson presented the report. He noted that in June 2017 the fund was reported to be 6.9% overweight in equities and 7% underweight in secure income based on the existing investment allocation. Members had then agreed to hold a selection meeting at Deloitte's offices on 18 July. The Infrastructure Manager Selection meeting at Deloitte's offices saw presentations from 3 infrastructure managers: Standard Life Capital Partners, Aviva Investors and First State Investments. Members preferred the proposal from Aviva Investors because of the short drawdown timeframe, competitive fees and fit with the ethical and sustainable elements of the Investment Strategy Statement.

Kevin Humpherson took the Sub-Committee through the proposed decisions. The first was to invest £30m in Ruffer to be used to fund capital calls for the Partners Group Infrastructure mandate. The Sub-Committee agreed the recommendation.

The second was to invest £30m to a new allocation to Aviva Investors Infrastructure Income Fund to bring the allocation to Secure Income more in line with the benchmark allocation. The Sub-Committee agreed the recommendation.

The third decision was on where to disinvest from equities – the paper recommended the majority come from the UK Focus Fund managed by Majedie. Councillor PJ Murphy noted that Majedie had higher fees but asked what the performance difference was – was there a better return? Kevin Humpherson said Majedie had outperformed over the past 18 months - but the reason for doing this was because the fund was overweight in equities and the Sub-Committee had concerns about the general market. If there was a downturn both Majedie and LGIM would suffer, however but LGIM had lower fees. Councillor Michael Adam noted that if there were market problems LGIM was a just passive index tracker but Majedie could shift into defensive positions.

Councillor PJ Murphy asked what the best option was to protect the fund. Kevin Humpherson said the default option was to follow benchmark which was LGIM. Peter Worth added that if the strategy was to de-risk – the fund should be moving out of UK Equities. The Sub-Committee agreed the recommendation in the paper.

Councillor PJ Murphy asked if it was worth keeping just £18m in the Focus Fund – suggesting it could be put to better use as part of a larger allocation elsewhere. Councillor Michael Adam also questioned whether the fund needed three different infrastructure mandates. Kevin Humpherson said he would come back with an exploratory paper addressing these issues.

ACTION: Kevin Humpherson

RESOLVED

1. That the Sub-Committee agreed to disinvest £60m from the Equity portfolio, in particular the UK Focus Fund managed by Majedie.
2. That the Sub-Committee agreed to invest £30m in Ruffer to be used to fund capital calls for the Partners Group Infrastructure mandate.
3. That the Sub-Committee agreed to invest £30m to a new allocation to Aviva Investors Infrastructure Income Fund to bring the allocation to Secure Income more in line with the benchmark allocation.
4. That the Sub-Committee agreed to update the Investment Strategy Statement to change the strategic benchmark within the equity portfolio to 67% LGIM, 33% Majedie (from 50/50).

8. QUARTERLY REVIEW PACK

Peter Worth presented the quarterly update report for the quarter that ended 30 June 2017.

Councillor Michael Adam asked for an up-to-date figure for the total value of the fund. Peter Worth said the fund value was around £1.015bn – with the increase largely driven by equities.

Councillor Michael Adam asked whether the infrastructure allocations were performing as expected. Peter Worth said it was difficult to monitor performance on the infrastructure fund at this early stage.

RESOLVED

That the Sub-Committee noted the report.

9. DATE OF THE NEXT MEETING

The next meeting was scheduled for 21 November 2017.

Meeting started: 7.00 pm
Meeting ended: 9.35 pm

Chair ....

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