London Borough of Hammersmith & Fulham

Pensions Sub-Committee

Minutes

Tuesday 27 February 2018

PRESENT

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

Officers: Matthew Hopson (Strategic Finance Manager, Pensions), Phil Triggs (Director of Treasury and Pensions), Hitesh Jolapara (Strategic Finance Director) and Amrita Gill (Assistant Committee Co-ordinator)

Guests: Alistair Sutherland and Kevin Humperson (Deloittes) and Chris Bilsland (London CIV)

1. MINUTES OF THE PREVIOUS MEETING

RESOLVED:
The minutes of the meeting held on 21 November 2017 were approved and signed by the Chair.

2. APOLOGIES FOR ABSENCE

Apologies of absence were received from Sue Hands (Interim Finance Manager, Pensions)

3. DECLARATIONS OF INTEREST

There were no declarations of interest.

4. DRAFT PENSIONS BOARD MINUTES

RESOLVED:
That the minutes of the meeting held on 7 February were noted.

5. LONDON CIV UPDATE

Chris Bilsland a non-executive director at the London CIV (LCIV), gave a presentation outlining three key areas which covered an operational and responsible investing update. Additionally, he showed slides that noted the future direction of travel of LCIV. Following a governance review that was commissioned from Willis Towers Watson by the London Local Authorities (LLAs) it was indicated a need for LCIV to change its governance arrangements and clarify its purpose and future strategy. A consultation process was therefore key to ensuring that the proposals were appropriate for London. The key steps in the consultation process were outlined. Additionally, the Chief Investment Officer of LCIV, Julian Pendock, had also left the organisation, with a search for a replacement yet to formally begin, pending the conclusion of the consultation process.

Councillor Michael Adam noted that he felt that LCIV was helpful for products such as UK and global equities as it had allowed the Council to retain investment managers and make tactical decisions around asset allocations accordingly. He said that if the Council had opted for the blended fund approach it would lose discretion for manager selection. This was an area of concern particularly as LCIV had not demonstrated experience in this area.

Chris Bilsland explained that the Council would still have a choice in appointing new managers. However, once a new manager was selected to the platform it would be LCIV's responsibility to make tactical changes to the fund allocation to ensure a maximum return. In the long term the Council would be able to see if the segregation of assets was beneficial via the blended funds approach.

Councillor PJ Murphy noted that the major concern was that LCIV lacked any clear business strategy over the short/medium and long term. Additionally, he questioned why LCIV had considered blending funds as an option as they currently didn't have experience in this area. He asked if LCIV would be paying private sector salaries throughout the organisation to match the salaries offered by their private sector competitors. Chris Bilsland said that the chief executive salary may set the salary for the company, but the company was still exploring and developing its remuneration strategy. It may be necessary to pay market salaries. However, with the advantage that some professionals would want to give back to society and were prepared to work for less than market remuneration. Furthermore, the LCIV were reluctant to recruit a permanent chief executive and chief investment officer until they were certain about their future strategy.

Councillor Guy Vincent asked what the current net asset value of LCIV was. Chris Bilsland said that he didn't have this information to hand and would feed back to the Committee. Councillor Guy Vincent asked if the Council had recourse against poor decisions made by LCIV. He added that the Sub Committee had a primary fiduciary responsibility for pension funds and asked whether we were at risk of giving up control of the fund to LCIV but retaining responsibility if something went wrong.

Chris Bilsland said there was some element of risk there but LCIV had the resources to put together a fund management team that would constantly monitor the fund and take necessary action. There was no guarantee that anything would ever go wrong however LCIV would need to work in collaboration with the Council to mitigate these risks. Furthermore, LCIV had full budget to recruit 24 members of staff and a search process would be used to appoint a permanent chief executive.

Councillor PJ Murphy said that he was not satisfied with the answers provided by the LCIV as they didn’t offer any reassurances. Additionally, LCIV lacked resources and with no clear long-term business strategy in place it was evident that they would need to address the fundamental issues. Questions were raised over the performance of the non-executive directors.

Chris Bilsland explained that LCIV was under funded and resourced. There wasn’t a clear business strategy in place and engagement across other London boroughs needed to be improved. However, the consultation process would address the key issues going forward.

The Chair asked why LCIV had fewer staff in comparison to other pools. Chris Bilsland explained that this was because former Local Authority staff had transferred over to the other pools, which meant that they had inherited staff.

Councillor Guy Vincent asked for a letter in writing highlighting all the issues discussed at the meeting to understand the risks involved. Councillor PJ Murphy asked who made the final decision on the completion dates for the consultation process. Chris Bilsland noted these were agreed by London Council Leaders for completion before the elections.

Councillor Nicholas Botterill said that there was clearly a structural flaw and the direction of travel was uncertain. Therefore, he was reluctant to hand over the decision-making process to LCIV. The Committee agreed that if the Council gave up some degree of sovereignty in relation to the management of its pension fund, then the governance of LCIV needed to be as robust and as democratic as possible. There also needed to be a clear way for boroughs to have genuine input into the decisions being taken by LCIV. There was a risk that by enforcing the blended approach, assets may not be managed optimally. The Committee needed to ensure that LCIV delivered what was considered important and basic groundwork needed to be completed to make LCIV fit for purpose.

Hitesh Jolapara suggested that the Council should include a covering letter highlighting the areas of concerns and make recommendations as part of the response of the consultation. The Committee agreed and noted that the consultation also needed to be amended to reflect the key concerns discussed at the meeting.

RESOLVED
That the Sub-committee noted the update

6. LONDON CIV GOVERNANCE REVIEW

NOTE: This item was discussed in conjunction with Item 5 (London CIV Update), please see item 5 for points raised by Councillors.

Phil Triggs introduced the report and informed the Committee of the extensive governance review carried out by Willis Towers Watson on LCIV. The governance review highlighted several significant concerns and made a number of recommendations. He highlighted that the key concern was surrounding the engagement of a wide stakeholder base with conflicting priorities and managing these different groups to achieve joint outcome. There was a fundamental issue with the cost recovery model which was leaving LCIV underfunded and under resourced, especially in client relations and secretarial.

Additionally, the Chief Investment Officer of the London CIV Julian Pendock has also left the organisation, with a search for a replacement yet to formally begin. The London CIV were reluctant to recruit a replacement until they were certain about their strategy going forward.

RESOLVED
That the Sub-committee noted the update

7. QUARTERLY UPDATE REPORT

Matthew Hopson presented the report for the quarter that ended 31 December 2017 and noted that the risk register remained unchanged. The Chair noted that risk 14 (LCIV governance) needed to be reviewed and recommend that the rating to be increased to high.

Kevin Humperson said that over the quarter, the total fund underperformed its fixed benchmark by 0.5% on a net of fees basis. He noted that Deloittes continued to rate Aviva investors positively for its infrastructure capabilities. Aviva had a strong pipeline, with c. £30m of capital with guaranteed deployment to the Fund's existing project and c. £580m of priority pipeline across new projects. Aviva expected to draw down the queue over the course of the year, estimating that it could draw down on this fund's commitment as early as the second quarter.

The Committee asked if there had been any savings following the Aberdeen and Standard life merger. Kevin Humperson said since the two businesses merged, Aberdeen Standard Investments (ASI) had put in place a formalised process where all potential transactions were reviewed and an 'allocation policy' applied where interest was expressed in the investment by more than one fund/ client portfolio. He said it was a great value creation bringing these businesses together and Deloitte continued to monitor ASI post-merger with the organisation currently during the integration.

The Committee asked if the Council's equality portfolio was protected against market fall. Kevin Humperson said that the Council was unprotected but there was an opportunity to look at hedging some of the investment risks if required. Officers were asked to review the Council's equity strategy and present it at the next meeting for wider discussions around the implications on funding levels.

Action: Matthew Hopson/ Phil Triggs

RESOLVED
That the Sub-Committee noted the update.

8. ADDITIONAL VOLUNTARY CONTRIBUTIONS PROVIDER TRANSITION UPDATE

Matthew Hopson introduced the report and noted an update of the AVC provider, Zurich Corporate savings, transitioning their existing portfolio of the Council's pensions fund member assets to a new platform. The transition aimed to provide members with a better service by utilising an online platform where members could check their benefits and receive up to date information.

Referring to page 36 of the agenda, Councillor Guy Vincent asked for further clarification to be sought on who they referred to as the 'Trustees' before the service agreement could be signed.

Action: Matthew Hopson

RESOLVED
That the Sub-Committee noted the update.

9. EXCLUSION OF THE PUBLIC AND PRESS

RESOLVED
That under Section 100A(4) of the Local Government Act 1972, that 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 in paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

10. LONDON CIV UPDATE - EXEMPT ELEMENTS

The exempt elements of the report were noted.

11. LONDON CIV GOVERNANCE REVIEW - EXEMPT ELEMENTS

The exempt elements of the report were noted.

12. LOW CARBON STRATEGY UPDATE

Matthew Hopson presented the report and noted that the paper updated the Committee on the funds current approach to fossil fuel investment and any possibilities of divestment in the future.

Councillor Guy Vincent asked for an options analysis to be included in the report for engagement and asked how much would the fossil fuel investment cost. Matthew Hopson said that the membership would cost approximately £15,000 per annum. (this subsequently has been found to be £9k per annum).

The Committee asked how many London Boroughs had signed up to the Local Authority Pension Fund Forum (LAPFF). Matthew Hopson said that 73 out of 89 funds had opted for this option. In additional they had a considerable portfolio of success and looked on favourably by administrative authorities. The LAPFF had been recognised as one of the most influential UK investor groups due to its commitment to responsible and robust engagement.

Phil Triggs noted that the London Borough of Southwark was one of the first LGPS funds to make such a commitment and placed the fund at the forefront of sustainable fossil fuel aware investment. He explained that a decision must be based on investment factors and that it was not a risk-free process therefore consideration needed to be placed on this.

RESOLVED
a) That the Sub Committee approved the Pension fund signing up to become a member of the LAPFF

b) That the Sub Committee approved a reduced fossil fuel exposure plan to be drafted along with the next investment strategy review in consultation with the fund's investment consultant.

c) That the Sub Committee noted the pension funds current approach to fossil fuel investing.

Meeting started: 7.00 pm
Meeting ended: 9.45 pm

Chair ....

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