London Borough of Hammersmith & Fulham

Pensions Sub-Committee

Minutes

Monday 23 July 2018

PRESENT

Committee members: Councillors Iain Cassidy (Chair), Rebecca Harvey and Asif Siddique and Matt Thorley

Co-opted members: Michael Adam

Officers: Matthew Hopson (Strategic Investment Manager, Pensions), Phil Triggs (Director of Treasury and Pensions), Mark Grimley (Director of Corporate Services), Mark Jones (Director for Finance & Resources), Timothy Mpofu (Pension Fund Manager) and Amrita Gill (Committee Co-ordinator)

Guests: Kevin Humpherson (Deloitte)

1. APPOINTMENT OF VICE CHAIR

Councillor Matt Thorley was elected as Vice-Chair of the Pensions Sub Committee for the 2018-19 Municipal Year.

2. MINUTES OF THE PREVIOUS MEETING

RESOLVED
The minutes of the meeting held on 27 February 2018 were approved and signed by the Chair.

3. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Jonathan Caleb-Landy and Michael Adam.

4. DECLARATIONS OF INTEREST

There were no declarations of interest.

5. QUARTERLY REVIEW PACK

Matthew Hopson, Strategic Investment Manager, presented the report for the quarter ending 31 March 2018 and noted that the risk register remained unchanged. He said that the summary of the voting undertaken by the investment managers running segregated equity portfolios formed Appendix 5. This included both the London CIV, Majedie and Ruffer in addition to the Legal and General global data.

Kevin Humpherson, of Deloitte, provided an update about the fund's investments and performance and said that there were no major developments with the managers on their performance. He explained that, according to the report, it seemed that the Partners Group Infrastructure fund had performed negatively, however this was due to an administrative error that was being resolved with Northern Trust. The fund invested in euros, however the figures included in the Northern Trust performance report were incorrectly reported in sterling. The fund was actually performing better than average and a more accurate figure would be provided at a future meeting.

Councillor Matt Thorley asked if the error had led to any negative impact on the fund. Kevin Humpherson reassured members that all their assets were making good progress, the team was performing well and officers were satisfied with their investment strategy. The underperformance was purely based on a reporting issue which was being addressed.

Matthew Hopson said that the Ruffer fund underperformed its target over the first quarter of 2018, however this fund was designed to do well in challenging markets and their investment was likely to improve over time.

The Chair asked for a summary to be provided on the pensions fund asset allocation. Kevin Humpherson provided an overview and noted that the majority of the equity allocation was held with Legal and General and the remaining was with Majedie. Partners Group was a global private markets investment manager, financing in real estate and infrastructure. He explained that in November 2017, the Sub-Committee had taken the decision to transfer £30m from the Majedie Focus Fund to Aviva Infrastructure Income Fund (AIIF) due to an overweight position in equities and a desire to move into infrastructure.

RESOLVED
That the Sub-Committee noted the contents of the report.

6. CARBON EXPOSURE

Matt Hopson, Strategic Investment Manager, explained that carbon exposure was difficult to estimate for a number of reasons, including areas where many disclosures were voluntary and varied in nature from company to company. With companies that extracted fossil fuels from the ground, it was usually obvious, but where a company's supply chain caused a significant carbon exposure or simply used a lot of power, it was less transparent. The only clear way to measure a company's exposure to carbon was through its carbon reserves, which were the fossil fuel assets owned by individual companies.

Matt Hopson, referring to page 47 of the agenda pack, listed some of the investment risks associated with investing in companies with high fossil fuel exposure. In addition, he noted that the main area of exposure to fossil fuels remained within its equity portfolio. This was because they were easiest to measure exposure and the first assets to change in price.

He highlighted that the Sub-Committee's key fiduciary responsibility was to manage the fund's investments in the best interests of the beneficiary members and the Council tax payers, where the primary focus must be on generating an optimum risk adjusted return. In addition, it was vital that any investment decisions or strategies developed, such as the carbon strategy, would not negatively impact on this primary responsibility.

Kevin Humpherson explained that establishing the 'carbon footprint' of a given company was challenging, however there were data providers who could assist investors to better understand their portfolio's carbon footprint by providing bespoke reports and analysis on a given investment portfolio. He also explained that if the Paris Agreement was upheld this would have a political and social impact on companies and on the use of the current carbon reserves.

The Chair asked what passive funds were offered and had been of interest. Kevin Humpherson explained that based on the global equity market index, the most reputable option was MSCI low carbon target index. This was developed to address the growing concern from investors about their investment in fossil fuels and the recent trend to reduce their exposure. In addition, the Chair asked what options had been explored by other London Local Authorities around this issue. Kevin Humpherson said that other Local Authorities were looking at the MSCI low carbon index option and some had already invested. The Council was monitoring progress and feedback would be provided at a future Sub-Committee meeting.

The Chair said that going forward the Government required The Local Government Pension Scheme members to produce an Environmental, Social and Governance (ESG) strategy by 2020 and asked Officers to ensure that this was in place. Phil Triggs, Director of Treasury and Pensions, explained that the Council had a section in their investment strategy statement around their ESG principles and these would be updated in line with any changes.

The Chair asked what risks were involved from a financial point of view going forward and how likely would other funds be significantly affected. Kevin Humpherson explained that officers would need to evaluate the fund's total exposure to carbon and if the risk was too high the investment strategy would need to be reviewed accordingly. Furthermore, he said that Majedie and Ruffer were likely to have the highest carbon footprints compared to other funds.

The Chair asked officers if they knew the extent of the fund's investments in carbon exposure. Kevin Humpherson said that this would be assessed and a report of the analysis would be brought to the next meeting. In addition, Councillor Matt Thorley requested that a breakdown be provided on each investment manager individually.

The Chair asked who would take the lead on the analysis and the likelihood of it being ready by the next meeting. Kevin Humpherson said that he would contact the relevant providers and request for an analysis to be completed by the end of August 2018.

Phil Triggs said that the investment strategy would also be reviewed once an analysis was completed. In addition, a representative from FTSE Russell would be invited to the next meeting.

Members of Friends of the Earth attended the meeting to discuss the Council's intention to divest its fossil fuel exposed investments and asked when this change was likely to take place. The Chair explained that prior to the making any divestment decisions, it was vital for the Council to consider its key fiduciary responsibility – i.e. generating the best risk-adjusted-return. He said that an analysis of the fund's total carbon exposure and the risks involved would be completed for consideration at the next meeting of the Sub-Committee.

RESOLVED

1. That the Sub-Committee approved the approach of supplier of carbon portfolio analysis systems and bespoke reports on an investment portfolio to assist investors with carbon footprint and climate risk measurement and reporting.
2. That the Sub-Committee noted the contents of the report and the Deloitte report attached as Appendix 1.

7. <u>EQUITY STRATEGY</u>

NOTE: This item was discussed in conjunction with Item 6 (Carbon Exposure Strategy), please see item 6 for points raised by officers and Councillors.

Phil Triggs, Director of Treasury and Pensions, provided an overview of the current equity allocation for the fund. He stated that the Majedie Focus and Tortoise product would be the most appropriate area on which to reduce exposure, given that the diversification benefits from these portfolios were not particularly valuable to the fund when it was already well diversified across a number of alternative mandates.

The Sub-Committee had decided to defer the decisions for the sale of the assets remaining in the Majedie Focus and Tortoise Funds and the transfer of choice of index to track in the global equity portfolio.. The aim was to further explore the investment risks and issues surrounding the Sub-Committee's fiduciary duties before a decision was made.

8. <u>LONDON CIV UPDATE</u>

Phil Triggs, Director of Treasury and Pensions, briefly provided a history of the London CIV (LCIV). He highlighted the original governance review carried out by Willis Towers Watson on LCIV and emphasised that the key concern was about the engagement of a wide stakeholder base with conflicting priorities and managing these different groups to achieve joint outcomes. A new governance structure had been approved to solve this dilemma.

Following the concerns raised and feedback received from Local Authorities across London, LCIV had re-submitted a new approved governance report to streamline their processes from 32 stakeholders down to 12.

The Chair noted that he attended the Annual General Meeting (AGM) on 12 July. There were some concerns that previously some Local Authorities were over represented and 32 stakeholders meant that there was a huge variety of opinions. Furthermore, discussions around the terms of reference and governance structures were held.

Councillor Matt Thorley asked whether all the Local Authorities were pooled together and who made decisions around asset allocation. Matt Hopson explained that the Council still had the power to change its asset allocation to exit a mandate if it was no longer appropriate for its investment strategy, however manager selection was controlled by LCIV.

Phil Triggs explained that there would be amendments to the Shareholder Agreement and Terms of Reference that reflected the changes in the governance structure which would need to be signed by the Chair. In addition, officers were seeking legal advice and further clarification would be provided on some of the points included in the governance documentation.

RESOLVED
The Sub-Committee noted the update.

9. DRAFT ANNUAL REPORT

Matt Hopson, Strategic Investment Manager, presented the draft Pension Fund Annual Report and Statement of Accounts for the year ended 31 March 2018. He explained that the report, which included the Pension Fund Accounts, was a regulatory requirement and needed to be approved by the Sub-Committee. The pension fund accounts were produced and handed to the auditors on 15 May 2018. This was ahead of the statutory deadline of 31 May which reflected the diligent work of officers. A draft Annual Report was shared with the external auditors on 12 June 2018 and the external audit was progressing well.

The Fund increased in value by 1.2% in the 12 months to 31 March 2018 in comparison with its benchmark of 3.6%. The fund remained ahead of its benchmark over a two-year time horizon and since inception. He noted that the statement of responsibilities would be updated accordingly, however the content would remain the same. In addition, there were no amendments to the pension fund accounts stated within the annual report from the auditors.

RESOLVED

That the Sub-Committee approved and noted the Pension Fund Accounts for 2017/18.

10. ZURICH AVC UPGRADE PROJECT

Mark Grimley, Director of Corporate Services, provided an update of the Additional Voluntary Contribution (AVC) provider, Zurich Corporate Savings, transitioning their existing portfolio of the Council's Pension Fund Member asset to a new platform by 31 May. The transition provided members with a better service by utilising an online platform where members could check their benefits and receive up to date information. The transition to Zurich's new platform had already been completed and consequently there were no further actions required of officers.

RESOLVED
That the Sub-Committee noted the contents of the report.

11. SURREY PENSIONS ADMINISTRATION UPDATE

Mark Grimley, Director of Corporate Services, provided an overview and noted that the report updated members on the performance of the Surrey County Council (SCC) pension administration services to the Council under a section 101 agreement for the period January to March 2018. The section 101 agreements included key performance indicators which were generally consistent with national standards and were monitored quarterly by the shared services retained pensions teams.

Mark Grimley noted that the Surrey help desk received over 500 queries per month and over 90% were resolved at first point of contact. In instances where SCC had initiated and maintained the pension record, performance targets had been reached in most cases. However, data inaccuracies inherited from Capita still impacted upon performance.

A project plan to check and improve inherited data inaccuracies had been agreed with SCC and was monitored monthly by the shared services Retained Pensions Team. It had been brought to the attention of SCC that Transfers Out performance needed to be a priority for improvement and would be discussed at the next quarterly service review meeting. There had been no formal complaints received in the last quarter on Surrey's performance and feedback from scheme members remained very good.

Mark Grimley noted that overall, Surrey's performance was deemed acceptable in all areas with the exception of transfers-out of a scheme member's accrued pension cash value to another Local Government Pension Scheme employer.

The Chair asked whether pensioners could easily access their annual benefit statements online. Mark Grimley explained that scheme holders could log on to the Surrey system and access this information online, furthermore this had been a good transfer from Capital to SCC.

RESOLVED
That the Sub-Committee noted the contents of the report.

12. 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.

13. EQUITY STRATEGY - EXEMPT ELEMENTS

The exempt elements of the report were noted.

14. LONDON CIV UPDATE - EXEMPT ELEMENTS

The exempt elements of the report were noted.

15. FULHAM PALACE TRUST

RESOLVED
That the Sub-Committee approved the recommendations contained within the report.

Meeting started: 7:00pm
Meeting ended: 9:00pm

Chair ....

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