London Borough of Hammersmith & Fulham

# Pensions Sub-Committee

## Minutes

**Tuesday 20 November 2018**

**PRESENT**

**Committee members**: Councillors Iain Cassidy, Rebecca Harvey, Asif Siddique, and Matt Thorley

**Co-opted members**: Michael Adam

**Officers:** Phil Triggs (Director of Treasury & Pensions), Matthew Hopson (Strategic Investment Manager), Timothy Mpofu (Pension Fund Manager), Hitesh Jolapara (Strategic Director of Finance & Governance), Trevor Webster (Human Resources), Lesley Bell (Business & Performance Manager), and Amrita Gill (Committee Co-ordinator)

**Guests:** Kevin Humpherson (Deloitte) James Sparshott, Laura Brown, Graham Wardle (Legal & General) Faith Ward (Brunel Pension Partnership)

### 1. MINUTES OF THE PREVIOUS MEETING

**RESOLVED**
The minutes of the meeting held on 4 September 2018 were approved and signed by the Chair.

### 2. APOLOGIES FOR ABSENCE

There were no apologies for absence.

### 3. DECLARATIONS OF INTEREST

There were no declarations of interest.

### 4. EQUITY PROTECTION STRATEGY

Laura Brown, Legal & General - Investment Management (LGIM) provided a presentation and noted the following points:

- Outlined the reason LGPS clients were protecting their equity portfolios

- LGIM had a readymade pooled solution that was easy to implement subject to a reasonable fee
- As equity markets had risen, cost of protection had fallen
- Part of the strategy was to balance protection cost whilst retaining equity above 9% pa & minimising tracking error through aligning regional allocation to underlying equity benchmark
- Funds controlled their own equity protection and managed how this was allocated. Furthermore, Funds could also adjust their protection strategy as underlying equities changed. However, LGIM managed collateral requirements using the index equities holdings as well as protection contracts. In addition, index equities could be transformed into cash futures

Kevin Humpherson, Deloitte asked what were the key factors that contributed to driving the protection costs down. Laura Brown explained that interest rates had dropped, this therefore had an impact on costs.

Phil Triggs, Director of Treasury & Pensions asked for LGIM's views around the positioning of the current market. Graham Wardle, LGIM explained that that there needed to be sufficient return on the Fund's equities – markets were currently challenging, especially with the volatility surrounding the withdrawal of the UK from the European Union. Therefore, as a result it was difficult to diversify equities in this market.

Hitesh Jolapara, Strategic Director of Finance & Governance asked how many Public-Sector funds had opted for this strategy. In response Graham Wardle said that 6 LGPS funds had signed up for an equity protection strategy with LGIM over the last year.

Kevin Humpherson asked for clarification around the cost implications and management fees involved if the Council had decided to consider this option. Graham Wardle explained that the index equity would have the same fee as agreed with LCIV. This would include a standard cost of 4.5 basis points on the amount of equity available. In addition, there would be an implementation fee.

Phil Triggs, referring to page 11 of the agenda pack explained that officers had various discussions with advisors on whether adopting this strategy would be beneficial for the Fund, however concluded that it would not be advisable to implement any form of equity protection strategy at this time.

Michael Adam, Co-opted Member noted that in the first quarter markets had fallen at a similar time. He questioned whether it was appropriate not to form an equity protection strategy given that there was still some risk for markets to fall further. However, he noted that the advice recommended by advisors was also an essential element to be considered prior to making a decision. Kevin Humpherson explained that at this stage it was difficult to predict the future of equities due to the complex nature of the current market. Furthermore, the Council's Pension Fund had a low allocation to equities in comparison to the wider LGPS scheme, already having one of the lowest volatilities of the last ten years when compared to the LGPS universe.

The Chair explained that the Committee had noted the different types of equity protection strategies available to the Council and considered advice from professionals advising them of the potential solutions and whether they were appropriate for the Council's Pension Fund. However, the Sub-Committee unanimously agreed that adopting this strategy would not be beneficial for the Fund at this stage.

**RESOLVED:**

That the Sub-Committee noted the different types of equity strategies available and approved that the Pension Fund would not be pursuing any form of equity protection strategy at this time

## 5. <u>CARBON EXPOSURE AND EQUITY STRATEGY</u>

Faith Ward, Brunel Pension Partnership (BPP) gave a presentation highlighting BPP's approach to responsible investment and stewardship. She showed slides that outlined the different asset classes and reporting strategies. BPP had been running for two years and used environmental, social and governance (ESG) principles to help reduce risk - using an ethical and responsible investment approach whilst monitoring the financial implication for Funds. An update on the different group of Funds as well as the different investment principles was provided. There were 17 different sustainable development goals available to different Funds that contributed towards tangible progress.

Faith Ward explained that BBP was set up to implement an investment strategy of each Fund by exploring options for pooling investment assets. However, if any concerns were discovered, BBP would work in collaboration with the selected managers to resolve these issues. The objective of pooling assets was to achieve savings over the longer term from both lower investment management costs and more effective management of the investment assets. ESG was constantly moving directions due to a challenging market – managers needed to regularly review these issues and pressures to maintain the investment processes.

Councillor Matt Thorley thanked Faith Ward for her presentation and experiences shared on ESG integration. He noted that it was very informative and there was a lot of information delivered that needed to be considered. Furthermore, he asked why there was no mention of companies such as banks throughout the presentation. In response Faith Ward explained that the main area of focus for BPP was mobile ecosystems and Google rather than banks.

The Chair asked for details to be provided on the different Funds which contributed to ESG. Faith Ward, explained that there was a total of 10 pools that were managed by BPP and majority of them were heavily involved in the responsible investment strategy.

The Chair asked for clarification around how much work was being carried out individually by each Fund and the contributions made by BPP. In response Faith Ward explained that BPP supported the asset allocation strategy (developing their thinking). In addition, manager selection was also BPP's responsibility. Information was fed back to each Fund on a regular basis by providing quarterly reporting updates.

Phil Triggs, Director of Treasury & Pensions referring to page 19 of the agenda pack noted that the Fund's investment consultant had met with FTSE Russell and prepared a short paper (Appendix 1) on a comparison between the two managers. He explained that MSCI World Low Carbon was well established and the main provider to LGPS funds. It also had a preferential fee rate with the Fund's existing provider, Legal and General. The FTSE Russell World Low Carbon index took account of green revenues within such stocks as Royal Dutch, Shell, and BP.

Kevin Humpherson, Deloitte explained that given the lack of formal reporting requirements on carbon emissions, information gathered from FTSE was often inconsistent, incomplete, and lacking in quality. Therefore, their data collection process was very manual and data interpretation was time consuming. This was expected to change in the future as reporting requirements became more formalised. For these reasons as well as considering implementation, product availability and fees, he was of the view that MSCI Low Carbon Target Fund with LGIM was a more appropriate low carbon option for the Fund.

The Chair queried the timescales around the implementation to MSCI Low Carbon and the fees involved. Kevin Humpherson explained as the Fund's current passive equity allocation was with LGIM, moving to MSCI Low Carbon Fund would not involve any on-boarding documentation or set up work. There was a management fee of 2 basis points and the benefit of a preferential fee agreement with the London CIV.

Members felt that after taking into consideration all the reasons above, moving to MSCI Low Carbon would be the most appropriate option for the Council. They requested that the transfer took place when the overall asset allocation was considered.

The Chair thanked Faith Ward for the presentation and the contributions made to the meeting.

**RESOLVED:**
That the Sub-Committee approved the selection of the MSCI World Low Carbon Target Index.

## 6. <u>CHANGES TO EMPLOYEE PENSIONS CONTRIBUTION BANDINGS CALCULATIONS</u>

Matt Hopson, Strategic Investment Manager presented the report and explained that there would be some financial impact to the Pensions Fund, arising from the move to the Hampshire County Council Integration Business Centre (IBC). He explained that there would be some changes to how employee contributions banding was calculated and the effect of auto-enrolment for some employees where opt out dates and forms were not held on Agresso. Members were automatically enrolled onto the Pension Scheme when employment commenced, however had the right to opt out of the scheme if they chose to, by signing an opt out form.

**RESOLVED:**
That the Sub-Committee noted the update

## 7. PIRC PERFORMANCE REPORT 2017/18

Matt Hopson, Strategic Investment Manager provided an overview on the investment performance of the Fund during the financial year 2017/18. He explained that the average local authority Fund produced a return of 4.5%. In comparison the Council's Pension Fund produced 1.7% which was below average and ranked in the 95$^{th}$ percentile. The reason for the lower return was due, in part to the Fund's lower equity exposure and much higher bond allocation when compared to the structure of the average LGPS fund. However, the Council's Fund had managed to deliver a much higher long-term return than average at a relatively low level of volatility. This was the optimal combination which would suggest strong Fund stewardship over the long term.

Furthermore, the average LGPS fund delivered an annualised performance of 9% per annum driven largely by strong long-term equity performance. Bonds had also performed well over the longer term assisted by 'quantitative easing'.

**RESOLVED:**
That the Sub-Committee noted the update.

## 8. PENSION FUND QUARTERLY UPDATE PACK

Kevin Humpherson Deloitte, presented the report for the quarter ending 30 September 2018.

Michael Adam, Co-opted Member questioned why had there been a disappointing performance delivered by the Insight fund. Kevin Humpherson said that this was predominately due to timing and the Fund had underperformed solely due to the challenging market conditions. There were no issues in relation to the management of the Fund. Deloitte were in the process of conducting a review of the product. Furthermore, a broader review of all Funds would be conducted and a report would be brought to a future Sub-Committee meeting.

**Action: Kevin Humpherson**

Matt Hopson explained that the Pensions Fund risk register (Appendix 4) had been revamped to show a more meaningful assessment of risks and the actions taken to mitigate them. This had led to the identification of additional risks in investment governance and administrative areas. Mat Hopson in response to a question, confirmed that the UK's departure of the European Union had been included as a risk (Risk 8).

The Chair requested that the Audit Committee and climate risk to be added to the risk register.

Michael Adam referring to page 82 of the agenda pack, requested that a summary of the annual net flow deficit to be included in the cashflow breakdown and brought to the next Sub-Committee meeting.

**Action: Matt Hopson**

**RESOLVED:**
That the Sub-Committee noted the update**.**

## 9. GOVERNMENT ACTUARIES DEPARTMENT (GAD) REPORT

Phil Triggs, Director of Treasury & Pensions introduced the item and noted that the report and appendices provided an update on the GAD report on the 2016 LGPS triennial actuarial valuation outcome.

Hitesh Jolapara, Strategic Director of Finance & Governance explained that the original report was uncomplimentary of the LGPS and not reflective of the majority of Funds being in a strong position. Some of the tests were regarded by LGPS actuaries as being not fit for purpose. Upon receiving notable challenges from various actuarial firms, GAD revised their report reflecting the improving funding positions across the board. The Council received green flags across the board on the GAD's various tests. This reflects the Fund was in a relatively strong position.

**RESOLVED:**
That the Sub-Committee noted the update

## 10. LGPS ADMINISTRATION PERFORMANCE UPDATE REPORT

Trevor Webster, Human Resources explained that the day to day administration of the Council's LGPS was delegated to Surrey County Council (SCC) under a section 1010 agreement effective from 1 September 2015.

In 2016 it was agreed that SCC would focus on resources on the resolution of queries at the first point of contact via a dedicated help desk to enhance the user experience. As a result, the rate of first point of contact resolution based on an average of 500 queries per month had increased to 93%.

Councillor Rebecca Harvey asked what was the reason for the number of Transfers in and out to be considerably lower than the rest of the data. Trevor Webster explained that the performance was recognised as unacceptable. A lot of time was spent cleansing and rectifying the data inherited from Capita which had resulted in a back log that needed to be reviewed. However, SCC were creating a specialist team to deal with Transfers. Transfers were recognised as being complex calculations that included receiving information from other organisations and therefore required a dedicated resource. The Council expected that this change would result in KPI 'transfers' being met going forward.

Trevor Webster noted that KPI information would be provided by SCC monthly from December 2018 rather than quarterly, so that performance could be tracked in a timely way. There had also been some service improvements which focused on enhancing the scheme members and employer experience, two new portals had been launched.

In Q2 SCC had conducted a day of 1-2-1 sessions for staff who self-nominated and there were plans to launch group engagement events linked to the wider HR strategy early in 2019.

The Chair asked if plans to create a national dashboard to enable people to view and track their pensions via the national portal were still in place. Phil Triggs explained that the LGPS data would feed into the new national system, however timescales around this were still to be confirmed.

**RESOLVED:**
That the Sub-Committee noted the update

## 11. AMENDMENTS TO THE PENSION BOARD TERMS OF REFERENCE

Trevor Webster, Human Resources explained that the levels of expertise and continuity required from all members of the Pension Board had resulted in the original requirement for representatives to serve a fixed term of the office of just two years had proven impractical. It was therefore recommended that the term of office should be increased to four years. In addition, there was no conflict with the Public Services Pensions Action 2013 regarding this proposal.

Michael Adam, Co-opted Member highlighted that it would be good practice to invite a trade union representative to attend future Pensions- Sub Committee meetings.

**Action: Amrita Gill**

**RESOLVED:**
That the Sub-Committee approved an amendment to the Pension Board Terms of Reference to increase the Employer and Employee representatives fixed term of office from two years to four years. The Employers representative with a start date of May 2018 to synchronise with the Councils election cycle and the Employees representatives to have a start date of July 2015

Meeting started: 7:00pm
Meeting ended: 9:50pm

Chair ..........................................................

Contact officer: Amrita Gill
Committee Co-ordinator
Governance and Scrutiny
☎: 020 8753 2094
E-mail: amrita.gill@lbhf.gov.uk