

Pension Fund Sub-Committee

Minutes

Tuesday 9 July 2019

PRESENT

Committee members: Councillors Iain Cassidy, PJ Murphy and Matt Thorley

Co-opted members: Michael Adam

Officers: Phil Triggs (Director of Treasury & Pensions), David Coates (HR and Payroll Consultant), Dawn Auger (Assistant Director – People and Talent) and Amrita Gill (Committee Co-ordinator)

Guests: Kevin Humpherson & Jonny Moore (Deloitte)
Heather Brown & Ian Berry (Aviva Investors)

1. **MINUTES OF THE PREVIOUS MEETING**

RESOLVED –

THAT, the minutes of the meeting held on 26 March 2019 were approved and signed by the chair

2. **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Rebecca Harvey, Mathew Hopson and Tim Mpofo.

3. **DECLARATIONS OF INTEREST**

There were no declarations of Interest.

4. **QUARTERLY UPDATE PACK**

The Chair welcomed Heather Brown and Ian Berry (Aviva Investors) to provide a presentation, relating to the performance of the Aviva Fund. The following points were noted:

- In December 2017 the Council made a £30m investment in the Fund.
- The Fund invested in low risk assets for regular long-term incomes. Majority of the fund was invested in small scale solar PV and utility-scale onshore wind sectors.

- An overview of the Fund's characteristics was provided.
- The Fund provided a stable level of regular income of 7-8% yield per annum. It was noted that past performance was not a guide to future performance and the value of an investment in the Fund could decrease as well as increase.
- Aviva had excellent Environmental, Social and Governance (ESG) credentials and worked together with an independent consultant to develop a 'carbon calculator' tool to measure the carbon equivalent savings associates with the portfolio.
- Approximately 20% of the Fund's portfolio was installed on social housing properties, with an expected higher rate of individuals experiencing fuel poverty than average.
- An overview was provided of the total transaction value held across Aviva's managed portfolios.

Councillor PJ Murphy, referring to the market sectors slide in the presentation asked if the Fund would face any challenges in terms of long-term sustainability after taking into consideration any potential changes to the Government legislation. In response Ian Berry explained that all of the sectors were sustainable in the longer-term. There was always a potential of risk, but this took place very rarely. In addition, Aviva Investors were not concerned about any legislation changes as all the portfolios were well regulated and contracted.

Michael Adam, Co-opted Member asked for further clarification to be provided around the asset split between the different market sectors. Ian Berry explained that the investments were structured to provide stable value across the market. In addition, the current assets would last for 25 operational years. The Fund was expected to grow as it stood, subject to any variation to the valuation. Council officers would be provided with regular updates of any potential changes made to the Fund. In addition, the Fund would operate using an open-ended scheme after the first 5 years and regular developments would take place ensuring that the rate of yield was being maintained.

Councillor Matt Thorley commented that the presentation was very useful and was impressed with the Fund's performance to date.

The Chair thanked Aviva Investors for the presentation and the contributions made to the meeting.

Jonny Moore (Deloitte) provided an update of the overall performance for the quarter ended 31 March 2019. It was noted that the Fund was overweight to equities and inflation protection relative to the strategic benchmark. Over this quarter, the total Fund returned 5.5% on a net of fees basis, outperforming the fixed weight benchmark by 0.3%. In addition, the total Fund underperformed the benchmark by 1.7% on a net of fees basis over this year to 31 March 2019, returning 6.3%.

At the February 2019 Pensions Fund meeting, the Sub-Committee decided to withdraw its entire holdings from the Insight Bonds Plus Fund and pursue a

buy and maintain strategy instead. This allocation was invested in May 2019 with the LCIV Global Bonds strategy which was managed by PIMCO.

Phil Triggs, Director of Treasury & Pensions, explained that Mike O'Donnell was appointed as the London CIV's (LCIV) Chief Executive Officer (CEO) at the beginning of March 2019. In addition, following quarter end, at the beginning of May 2019, Michael Pratten joined as interim Chief Investment Officer (CIO).

The Chair, referring to Appendix 1, asked for clarification around the difference between the number of employers during the period of June 2018 to September 2019. Phil Triggs said that he would circulate a detailed explanation after the meeting.

Action: Phil Triggs

Councillor PJ Murphy asked for an update to be provided on the progress made to date by LCIV. In response Phil Triggs explained that good progress had been made and increased confidence and enthusiasm was expressed amongst London Local Authorities. The key to this positive transition was the appointment of the CEO and CIO who both demonstrated wide knowledge, experience and expertise. In addition, the general view within London local authorities on pooling was to continue engagement with LCIV. It was noted that funds would retain responsibility for strategic asset allocation whilst LCIV would be responsible for manager selection, in line with the most recent pending legislation developments.

The Chair asked if the LCIV intended to provide higher level of support to LA's for ESG factors going forward. In response, Phil Triggs said that that he would need to review the business plan to establish this. However, he felt that, whilst good progress was being made, there would be a period of readjustment before the LCIV could provide a similar level of service to the Brunel Pension Fund.

RESOLVED -

THAT, the Sub-Committee noted this report.

5. MCCLLOUD, COST CAP AND VALUATION

Phil Triggs, Director of Treasury and Pensions introduced the report and provided an update on the cost cap in public service pensions and recent developments. Whilst the cost cap/floor mechanism would normally be underway at this time, the Government Actuaries Department (GAD) had suspended the process, pending the outcome of the McCloud Supreme Court case.

It was highly unlikely that there would be any resolution before the 2019 actuarial valuation was complete. However, there were several possible ways of treating the outcome of the McCloud appeal and the cost management

process. The LGPS Scheme Advisory Board (SAB) was due to issue guidance to funds and actuaries on the preferred approach.

RESOLVED -

THAT, the Sub-Committee noted the report and potential implications for the Hammersmith & Fulham Pension Fund and the consultation on the actuarial valuation process at Appendix 1.

6. EXIT CAP CONSULTATION

David Coates, HR and Payroll Consultant provided an overview and summary of the background of the proposed cap on exit payments in the public sector. On 10 April 2019, HM Treasury opened a consultation, and this would close on 3 July 2019.

The exit cap covered redundancy payments (including statutory redundancy payments), severance payments, pension strain costs, and all other payments made as a result of the termination of employments. The statutory redundancy element of an exit payment cannot be reduced. If the cap was exceeded, other elements that made up the exit payment must be reduced, to ensure that an exit payment not above £95,000 was achieved.

The general feeling amongst stakeholders was that the exit cap would apply beyond those considered by the Government to be 'high earners' and would now be likely to include middle and lower management salary grades with long service in the LGPS and whose employment was being terminated prior to their normal pension age. In addition, the Council could only override the cap in certain circumstances, these include GP considerations, whistleblowing or discrimination claims and discretionary grounds.

The Council had responded formally to the consultation and a copy of the response was tabled during the meeting.

The chair asked for further clarification to be provided on how these changes would be implemented. David Coates explained that the LGPS regulations would need to be amended to allow the cap to be implemented. It was not clear how benefit calculations would be calculated and how the cap would be introduced. In addition, the Government had not yet carried out an equalities impact assessment and a precise future timing for this had not been established.

Councillor PJ Murphy asked how these proposed changes would impact staff contractually. In response David Coates explained that the contract of employment would be overridden for the staff members who would be affected by this change. Statutory redundancy payments were protected but contractual payments were not covered under the new arrangements.

RESOLVED –

- THAT, the Sub-Committee noted the report.

7. ACCOUNTS AND ANNUAL REPORT

Phil Triggs, Director of Treasury and Pensions introduced the report which included the Pension Fund Accounts 2018/19. This was a regulatory requirement and needed to be approved by the Pension Fund Sub-Committee by 30 September following the year end. In addition, the external audit was currently underway, beginning on 1 July 2019. The Pension Fund investments returned 5.0% over the year, although this was 2.5% below the benchmark for the year. The Fund suffered poor performance from its UK Equities allocation and poor returns from its diversified growth fund. The Fund remained ahead of its benchmark over a ten-year time horizon and since inception.

Members expressed their disappointment of the Fund's underperformance in comparison to the London average.

RESOLVED -

THAT, the Sub-Committee approved the Pension Fund Annual Report for 2018/19 and noted the Pension Fund Accounts for 2018/19.

8. UK EQUITY MANDATE REVIEW

Kevin Humpherson, Deloitte introduced the report and noted that the Partners Group Fund was in wind down, therefore recommended that the Committee explored other alternatives to reallocate the investment.

It was noted that Majedie Asset Management had run the UK Equities mandate since 2005, outperforming the market by around 2.6% on a since inception basis (annualised). The main points to note from the report were:

- Majedie had experienced poor performance in the last two years, with significant underperformance in 2017 when compared with the FTSE All Share Index.
- Majedie had suffered particularly from a small part of its portfolio that had significantly underperformed.
- Long term performance did however still remain positive.
- The portfolio invested primarily in stocks with high percentages of earnings generated overseas, providing less currency risk diversification.
- There were no long-term concerns with Majedie Asset Management in continuing to manage the mandate if the Committee wished to maintain an allocation to UK Equities

Michael Adam, Co-opted Member asked for further clarification to be provided around the Fund's positioning. In response Kevin Humpherson said that the Council would need to review its total UK equity portfolio. Majedie had not positioned the Fund on the basis of a particular Brexit outcome and as such held a mostly balanced portfolio. The UK Equity Fund had always used stock selection and sector views as opposed to relying on the macroeconomic views. The UK Equity Fund had less exposure to UK companies with global

revenues in comparison to the wider market, therefore should be less affected by a sterling rally should Brexit developments prove favourable. However, this position would lose out if sterling depreciated further as a result of a no deal Brexit.

The Chair asked how quickly the Council could exit Majedie, should the Committee consider an alternative asset class within Equities. In response Kevin Humpherson said that a plan would need to be agreed and this could be effectively implemented very soon. A redemption request would be made to the LCIV. There would be no redemption fees, however a standard transition cost would apply.

Members asked whether the Fund's performance was collectively monitored. Kevin Humpherson said that this had been monitored and views were based on the track record and past performance of the active manager when dealing with this type of investment in equities.

Phil Triggs, Director of Treasury and Pensions noted that all the other local authorities in this sub fund had withdrawn and only two still remained invested in the Majedie fund. In addition, should the committee decide to withdraw, they should consider reallocating the portfolio to the passive global markets due to the risk faced with UK equity markets. For example, the MSCI Low Carbon Global Index would be worth exploring as a short-term investment.

The Chair requested that a breakdown of the Fund's asset allocation, including interim valuations be brought to the next meeting for a further review.

RESOLVED -

THAT, the Sub-Committee noted the current performance of Majedie and approved the immediate termination of the LCIV Majedie UK Equities portfolio and transition of the portfolio to the LGIM MSCI Global Low Carbon Index-Tracker fund.

9. CASH MANAGEMENT

Phil Triggs Director of Treasury and Pensions provided a summary of the Pension Fund's current cash managers and future recommendations for the effective management of cash for the fund.

RESOLVED -

THAT, the Sub-Committee noted the key details of each of the fund's existing cash managers and approved the transfer of the cash in the LGIM Sterling Liquidity Fund into the Northern Trust custody account and use of the Northern Trust as the main account for any future asset transitions.

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. UK EQUITY MANDATE REVIEW - EXEMPT ELEMENTS

The exempt elements of this item were noted and discussed in conjunction with item 8.

RESOLVED -

THAT, the Sub-Committee noted the exempt elements.

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

Chair

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