London Borough of Hammersmith & Fulham

Pension Fund Sub-Committee

Minutes

Tuesday 26 November 2019

PRESENT

Committee members: Councillors Iain Cassidy (Chair), Rebecca Harvey, PJ Murphy and Matt Thorley

Co-opted members: Michael Adam

Officers: Phil Triggs (Director of Treasury & Pensions), Matt Hopson (Strategic Investment Manager), Timothy Mpofu (Pension Fund Manager), Hitesh Jolapara (Strategic Director of Finance and Governance), Dawn Aunger (Assistant Director People and Talent), Trevor Webster (Human Resources)

Guests: Barry McKay (Barnett Waddingham)
Kevin Humpherson & Jonny Moore (Deloitte)

1. MINUTES OF THE PREVIOUS MEETING

RESOLVED:
THAT, the minutes of the meeting held on 12 September were approved and signed by the chair.

2. APOLOGIES FOR ABSENCE

Apologies for lateness were received from Councillor Rebecca Harvey.

3. DECLARATIONS OF INTEREST

There were no declarations of interest.

4. AUTHORISATION TO APPROVE ADMITTED BODIES INTO THE LBHF PENSION FUND

Trevor Webster, Human Resources introduced the report and noted that the holder of the Director of Corporate Service post left the Council on 31st May 2019. Therefore, as an interim arrangement the Chief Executive was approving Admitted Body Status (ABS) to a new employer and the Assistant Director People and Talent had been making discretionary decisions. It was recommended that the delegated authority be given to the position of

Assistant Director People and Talent to approve ABS to a new employer and also make discretionary decisions relating to death, grant and early/ill health retirement payment on behalf of the Council's Pension Fund.

Councillor PJ Murphy asked for further clarification to be provided, relating to the accountability of decision making on behalf of the Council's Pension Fund and what governance arrangements were in place. In response Trevor Webster explained that the procedure set out in the discretionary decisions policy document would be followed to ensure consistency throughout the process. In addition, an independent audit would be carried out by Surrey County Council (SCC), separately to the Council's own audit process. The Council would be notified if any discordant, decisions were made, and a review would be carried out.

RESOLVED:
THAT, the Sub-Committee delegated authority to the position of Assistant Director People and Talent to approve 'Admitted Body Status' to a new employer and to make discretionary decisions relating to making death grant and early/ill health retirement payment on behalf of the Council's Pension Fund.

5. PENSION REGULATOR REPORT

Trevor Webster, Human Resources noted that in September 2019 the Pensions Regulator (TPR) issued a report which followed their survey carried out between October 2018 and July 2019 into the Governance and Administration of Public Sector pensions. As part of the report the Pensions Regulator fed back on good practice and suggested improvements that could be made. The findings and best practice was compared to the current governance standards within the Council's Local Government Pension Scheme fund and conclusions and recommendation had been made.

In comparison to the report the Council matched closely on a number of green areas, such as key performance indicators, the complaints process and the management of admitted processes. Officers provided reassurances to members that no red flags had been identified. However, four amber areas had been established and these would be reviewed by officers. Additionally, improvements would be made in line with the report issued by the Pensions Regulator.

RESOLVED:
THAT, the Pensions Fund Sub-committee noted the contents of the report.

6. ADMINISTRATIVE PERFORMANCE UPDATE

Trevor Webster, Human Resources explained that the Council's London Government Pension Scheme (LGPS) day to day administration was delegated to SCC. SCC's performance against the agreed Key Performance

Indicators (KPIs) was shown in Appendix 1 and monthly monitoring of all KPIs would continue.

In addition to the KPIs, an agreed priority of the pension's administration service was that Surrey County Council (SCC) would focus resources on the resolution of queries at the first point of contact carried out via a dedicated help desk. The aim was to resolve matters and provide a speedy reply to routine queries. As a result, in September 2019 of the 644 personal contacts were made by employees in the Council's pension scheme to the SCC help desk. Of these 86% (567) were resolved at the first point of contact. It was noted that overall all except one out of the seventeen KPIs stood at 100%.

Councillor Rebecca Harvey asked why the total number of first point of contact queries were high. In response Trevor Webster explained that employees contacted SCC for advice, more frequently than before and higher queries would be received during the release of the Annual Benefit Statements. In addition, it was noted that in comparison to other London boroughs these figures were not higher than the average.

RESOLVED:
THAT, the Pensions Fund Sub-committee noted the contents of the report.

7. PENSION FUND QUARTERLY UPDATE PACK

Tim Mpofu, Pension Fund Manager provided an update on the Pension Fund Quarterly Monitoring report. He noted that over the quarter to 30 September 2019, the Fund delivered a return of 2.9% net of fees outperforming the fixed weight benchmark by 0.4%. In addition, the Funds valuation was close to £1.1bn which suggested a good environment from an investment point of view. It was noted that that no funding update was carried out in Q1 2019, as the assumptions had been changed ahead of the triennial valuation, however this would be revised in line with the actuaries.

Michael Adam, Co-opted Member, referring to Appendix 1 of the pack asked why there had been a decline in active members. Tim Mpofu explained that the figures had been refreshed in June. A data cleansing exercise was carried out to ensure that the Council's data was at a good standard prior to the triennial valuation. Therefore, some of the active members had moved to the deferred list.

Councillor PJ Murphy explained that the accuracy of the data was crucial, therefore enquired whether officers were satisfied with the standard of the data as it currently stood. In response Phil Triggs explained that Barnett Waddingham were of the view that the data was at a good standard since the data cleansing work had been carried out. Officers had been working to achieve a higher standard over the last 12 months. A comparison of the current standard of data in contrast to how it was, prior to the data cleansing work could be provided to the Committee to review.

Hitesh Jolapara, Strategic Director of Finance and Governance said that regular sample checks on the data would be introduced going forward to ensure that the data was consistently being reviewed.

Tim Mpofu, Pension Fund Manager provided a summary of the Fund's Environment, Social & Governance (ESG) Report. He explained that the Fund's investment in the MSCI Low Carbon index had 57% less CO2 output than the global benchmark. This analysis was carried out annually by the Pension Fund through a specialist firm. In addition, the Pension Fund's officers continued to engage with the fund managers in the development of better carbon emissions metrics and reporting. The total carbon friendly investment value was £466m.

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Councillor PJ Murphy asked if the Fund was on target for achieving Carbon neutrality by 2030 in line with Council's priority. In response Tim Mpofu explained that a full evaluation needed to be carried out to determine the Fund's level of exposure to carbon emissions. This exercise would be carried out in January 2020 and officers would then have a better indication on how close the Fund was to achieving its target. Phil Triggs, Director of Treasury & Pensions, explained that a Responsible Investment Policy paper was being developed (an agenda item at this meeting) and part of these discussions would help determine how the Council would achieve their target by 2030. In addition, the paper would be a working document to support and improve the Council's carbon position over the long-term.

Michael Adam, Co-opted Member asked whether there was an opportunity to consider other ESG metrics across the board, rather than focusing on carbon exclusively to make improvements in this area i.e. how the council was performing on ESG overall. In response Matt Hopson explained that voting data could also be included, however this paper mainly focused on carbon. Michael Adam suggested that officers followed this up this with managers to determine how the Council could expand this paper to capture other ESG factors including gender paid gaps and good governance on boards.

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Kevin Humpherson, Deloitte, noted that Aviva Investors had been in touch to notify officers that there had been some changes to the role of Head of Infrastructure Equity, a new managing director of infrastructure had been appointed. Kevin Humpherson explained that he would contact Aviva after the meeting to ascertain the current position and feed back to the Sub-Committee as soon as possible.

Kevin Humpherson, Deloitte provided an update on Oak Hill Advisors outlining the key organisational and personnel changes. While there had been significant changes over the period, particularly to senior management, Deloitte were of the view that the team remained strong. Robert Okun's retirement as the Portfolio Manager on the Diversified Credit Strategies fund was relatively gradual, with investors being aware for some time that Adam Kertzner would take over.

Kevin Humpherson, Deloitte provided an overview of five alternative asset classes selected by the Sub-Committee. These included direct lending, renewable infrastructure, social housing, emerging market debt and green bonds. For each of these asset classes a description of their main characteristics and various key considerations was provided to the Sub-Committee. In addition, majority of these asset classes were illiquid in nature, therefore the Sub-Committee should consider its immediate and future cashflow requirements and longer-term goals before making a commitment.

RESOLVED:
THAT, the Pensions Fund Sub-committee noted the contents of the report.

8. DRAFT TRIENNIAL VALUATION

Barry McKay, Barnett Waddingham the Pension Fund's actuary provided an update of the results for the 2019 triennial actuarial valuation and outlined the following key points:

- Active membership remained stable, however the deferred member numbers were up 10%. Therefore, the cash management and investment strategy needed to be considered going forward to find an alternative to fill the gap deficit.
- The Fund's funding level, as a whole had risen to 97% from the 88% level in 2016.
- Good results were broadly due to the excellent investment returns over the period, increasing by 88m more than expected.
- The Fund's deficit had decreased from £114m to £35m
- Each employers funding position and liabilities were calculated separately to set individual employer contribution rates.
- The cost control management mechanism in public service pensions 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 noted that longevity rates had shown a slight decline in improvement since 2011. Therefore, a small adjustment was made to the valuation of liabilities, reducing the total by approximately £54m.
- The primary rate had increased as the cost of asset purchase was more expensive in comparison with three years ago.
- The discount rate has been reduced in order to reflect a more prudent approach to future investment outcomes, following three years of significant investment returns.
- There has also been a decrease in the secondary rate as a result of a better funding level.
- Overall aiming for stability of the total level of contributions.

Councillor PJ Murphy asked what factors were considered when life expectancy was determined. In response Barry McKay explained that many different factors were considered when life expectancy was analysed, including every member in the fund. This meant that every employer had their own analysis carried out and the mortality rate was determined on the basis of each individual's role, postcode and various other factors.

Council PJ Murphy asked whether the Council's funding level had been frozen for the next three years. In response Barry McKay explained that it's frozen from the point when the contributions were set. The overall funding level was currently 97% and would always be a moving target. The Council would ideally need to stay between 95-105% as this would keep the contributions within the investment strategy relatively stable. Additionally, other factors such as inflation can also affect the funding level.

Councillor PJ Murphy queried whether the Council was able to adjust its funding level if it chose to increase its contributions within the three-year period. Barry McKay explained that the regulations allowed the Council to pay more in and adjust the contribution rate. However, it was important to be prudent on certain factors. As this was an open-ended scheme the ideal situation, whilst looking for a long-term return in the market, was to ride out the volatility and keep contributions as stable as possible over the long term.

The Chair asked at what point should the Government Actuaries Department (GAD) be concerned in relation to funding levels for local authorities. Hitesh Jolapara, Strategic Director of Finance & Governance explained that
the GAD report on the 2016 LGPS triennial actuarial valuation outcome was somewhat critical 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 improved funding positions across the board. The Council received green flags across the board on the GAD's various tests. The initial results of 2019 triennial actuarial valuation demonstrated that the fund's funding level as a whole had risen to 97% from 88% level in 2016, therefore this showed a greatly improved funding level and was now almost fully funded.

Michael Adam, Co-Opted Member asked what the average funding level across the LGPS was. In response Barry McKay noted that the average funding level should be approximately 100%, however a more complete analyse would be available by the end of March 2020.

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The Chair thanked Barry McKay for the presentation and for his contributions made to the meeting.

RESOLVED:
THAT, the Pensions Fund Sub-committee noted the and commented on the initial actuarial results.

9. <u>MAC MANAGER SELECTION PAPER</u>

Matt Hopson, Strategic Investment Manager explained that at the last Pensions Fund Sub-Committee on 12 September 2019 the Pensions Sub-Committee agreed to reallocate the Pension Fund 5% allocation to diversified private credit. After drawing up an initial longlist of managers that were capable of running such a mandate, this was reduced to a shortlist of two. The Sub-Committee met on 22 October 2019 to interview the two managers, Partners Group and Aberdeen Standard Investments (ASI), to determine their suitability for the mandate. Both managers put forward compelling cases and it was recommended that the Sub-Committee appointed ASI for the reasons set out on page 150 of the agenda pack.

In addition, as a seed investor, the Pension Fund had been offered a seat on the investment Advisory Board. ASI had offered an original fee for an extra 5bps discount. However, the original set up fee remained the same.

Michael Adam, Co-opted Member advised that if the Sub-Committee was minded to appointing ASI, then it would be well timed to wait until the outcome of the General Election to ascertain the macro economic outlook for UK before investing.

RESOLVED:
THAT, in principle the Sub-Committee appointed Aberdeen Standard Investments to run the Pension Fund's £55m diversified private credit mandate using the Multi Factor Private Credit Fund subject to the results of the General Election on 12 December 2019.

Authority was delegated to Phil Triggs, Director of Treasury & Pensions, in consultation with the Chair to agree this after 12 December 2020.

10. INVESTMENT CONSULTANT AIMS AND OBJECTIVES

Matt Hopson, Strategic Investment Manager presented the aims and objectives for the Fund's consultant, Deloitte as per the requirements of the Competition and Markets Authority (CMA).

Matt Hopson, Strategic Investment Manager referring to page 179 of the agenda pack, explained that after conducting an extensive review into the Pension Fund consultancy and fiduciary management industry, the CMA produced a report, detailing a number of recommendations to improve Pension Fund governance, with a number of concerns expressed around fees and conflicts of interest. The key suggested remedies were set out in section 1.3 of the report.

RESOLVED:
THAT, the Pensions Fund Sub-committee noted the report with a view to formalising and agreeing aims and objectives for the Pension Fund's investment consultant, Deloitte.

11. MHCLG PROGRESS REPORT

Phil Triggs Director of Treasury & Pensions presented the Ministry for Housing, Communities and Local Government (MHCLG) report. The London CIV pooling progress report had been prepared based on the data provided by the 32 local authorities within London and, in preparing cost and savings projections a number of assumptions had been applied to this data. The estimated savings passed on to member shareholders by March 2023 was projected to be circa £60m.

Members asked how much savings the Council had made by being a member of LCIV. In response Phil Triggs said that the Council had made savings of approximately 30k per annum. In absolute terms it had cost the Council more to be part of LCIV. However, this should improve overtime. Additionally, LCIV were in the process of compiling their budgets for 2020 and the outcome would be reported in February 2020.

RESOLVED:
THAT, the Pension Fund Sub-Committee noted the contents of the report.

12. TRAINING NEEDS ASSESSMENT

Matt Hopson, Strategic Investment Manager explained that the knowledge and skills assessment form needed to be completed by the Sub-Committee and sent back to officers. This was not a statutory requirement for the Sub-Committee. However, training records needed to be documented and any feedback would be useful to determine the training programme.

RESOLVED:
THAT, the Pension Fund Sub-Committee noted the knowledge and skills assessment form.

13. ENVIRONMENTAL, SOCIAL, GOVERNANCE AND RESPONSIBLE INVESTMENT POLICY

Phil Triggs, Director of Treasury & Pensions provided an updated and noted that the suggested update of the Pension Fund’s Environment, Social and Governance (ESG) Policy would be included as part of the update to the Investment Strategy Statement, a full redraft would be brought to the next Sub-Committee meeting. The responsible Investment Statement would be a stand-alone policy document which aimed to make clear the Pension Fund’s investment values and would be subject to regular ongoing review.

RESOLVED:
THAT, the Pension Fund Sub-Committee noted the report with a view to enabling officers to formalise and finalise the ESG related policies statements.

14. ANY OTHER BUSINESS

LCIV PENSION RECHARGE AGREEMENT

Phil Triggs (Director of Treasury & Pensions), presented the outcome of the LCIV Pension Recharge and Guarantee Agreement discussions. It was noted that the London CIV, having opted to join the LGPS Pension Scheme via an admission agreement with City of London authority, was proposing to change the basis for this by saying that membership would not be available for new employees. LCIV have not yet entered into the admission agreement. Conditional on this was the Recharge/Guarantee Agreement paperwork being signed and returned to LCIV. Members agreed for these two agreements to be entered into by the Council.

Meeting started: 7:00pm
Meeting ended: 9:45pm

Chair ....

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