

# Pension Fund Sub-Committee

## Agenda

Tuesday 23 June 2020 at 6.30 pm  
Online – Virtual Meeting

### MEMBERSHIP

Administration	Opposition
Councillor Iain Cassidy Councillor Rebecca Harvey Councillor PJ Murphy	Councillor Matt Thorley
Co-optee	
Michael Adam	

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# Pension Fund Sub-Committee Agenda

<u>Item</u>		<u>Pages</u>
<b>1.</b>	<b>MINUTES OF THE PREVIOUS MEETING</b>	4 - 13
	To approve as an accurate record and the Chair to sign the minutes of the meeting held on 11 <sup>th</sup> February, 9 <sup>th</sup> March and 22 <sup>nd</sup> April.	
<b>2.</b>	<b>APOLOGIES FOR ABSENCE</b>	
<b>3.</b>	<b>DECLARATIONS OF INTEREST</b>	
	If a Councillor has a disclosable pecuniary interest in a particular item, whether or not it is entered in the Authority's register of interests, or any other significant interest which they consider should be declared in the public interest, they should declare the existence and, unless it is a sensitive interest as defined in the Member Code of Conduct, the nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent.	
	At meetings where members of the public are allowed to be in attendance and speak, any Councillor with a disclosable pecuniary interest or other significant interest may also make representations, give evidence or answer questions about the matter. The Councillor must then withdraw immediately from the meeting before the matter is discussed and any vote taken.	
	Where Members of the public are not allowed to be in attendance and speak, then the Councillor with a disclosable pecuniary interest should withdraw from the meeting whilst the matter is under consideration. Councillors who have declared other significant interests should also withdraw from the meeting if they consider their continued participation in the matter would not be reasonable in the circumstances and may give rise to a perception of a conflict of interest.	
	Councillors are not obliged to withdraw from the meeting where a dispensation to that effect has been obtained from the Standards Committee.	
<b>4.</b>	<b>H&amp;F PENSION ABATEMENT - PROPOSED ABOLISHMENT</b>	14 - 17
	This report recommends to the Pensions Sub-Committee that from 1 July 2020 the council should cease operating the abatement of pension benefits for certain H&F pensioners who are re-employed by an employer that operates the Local Government Pension Scheme (LGPS).	
<b>5.</b>	<b>INVESTMENT STRATEGY UPDATE</b>	18 - 22

This paper provides an update on the London Borough of Hammersmith

& Fulham Pension Fund's investment activity since the Pension Fund Sub-Committee approved the delegation of all decision-making to the Chair, in consultation with the Director for Treasury and Pensions in April 2020.

This report has two appendices that contains information exempt within the meaning of Schedule 12A to the Local Government Act 1972 and is not for publication. The appendix has been circulated to the committee members only.

***Any discussion on the contents of an exempt appendix will require the Committee to pass the proposed resolution at the end of the agenda to exclude members of the public and press from the proceedings for that discussion.***

**6. EXCLUSION OF THE PUBLIC AND PRESS**

The Committee is invited to resolve, 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.

**7. EXEMPT MINUTES OF A PREVIOUS MEETING**

To approve the exempt minutes of the meeting held on 9<sup>th</sup> March 2020.

**8. INVESTMENT STRATEGY UPDATE - EXEMPT APPENDICES**

These appendices contain the exempt elements of item 5.

# Agenda Item 1



London Borough of Hammersmith & Fulham

## **Pension Fund Sub-Committee Minutes**

**Tuesday 11 February 2020**

### **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 Mpofo (Pension Fund Manager)

**Guests:** Kevin Humpherson (Deloitte)  
Barry McKay (Barnett Waddingham)

1 Member of the public was also present

### **1. MINUTES OF THE PREVIOUS MEETING**

The Chair congratulated Matt Hopson (Strategic Investment Manager), and Timothy Mpofo (Pension Fund Manager) for passing their Chartered Financial Analyst (CFA) level one exams.

#### **RESOLVED:**

THAT, the minutes of the meeting held on 26th November were approved and signed by the chair.

### **2. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Rebecca Harvey.

### **3. DECLARATIONS OF INTEREST**

There were no declarations of interest.

### **4. TRIENNIAL VALUATION**

Barry McKay (Barnett Waddingham), the Pension Fund's actuary provided a presentation of the final results for the 2019 triennial actuarial valuation and outlined the following key points:

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Minutes are subject to confirmation at the next meeting as a correct record of the proceedings and any amendments arising will be recorded in the minutes of that subsequent meeting.

- Outlined the purpose of the valuation and noted that this was required by Regulations.
- The Fund achieved a strong investment performance.
- The funding level for the Council (as a single employer) stood at 95%, improving from 84% previously.
- Each employer's funding position and liabilities were calculated separately to set individual employer contributions rates.
- Each assumption would be reviewed and revised based on recent experiences and market conditions every three years.
- The total contribution rate payable by employers consisted of two elements: the primary and secondary rate.
- The discount rate was derived through looking at different asset classes to establish the best investment rate.
- There had been a slight decline in the improvement of longevity rates since 2011. The assumptions had been revised to reflect the current trend.
- A summary of the key assumptions which included salary increases and discount rates were provided.
- Different assumptions were taken into consideration for the section 13 valuation.
- There was some uncertainty around the effect of the McCloud and Sargeant cases and the cost cap on future and historic LGPS benefits structure.

Michael Adam, Co-opted Member asked what the average funding level across the LGPS was. Barry McKay explained that a briefing note would be circulated to the Sub-Committee on this.

**Action: Barry McKay**

Councillor PJ Murphy asked for clarification to be provided around how much deficit the Council still had to pay. In response Barry McKay said that the Council still had a £49m deficit to pay over a 17-year period. In addition, if all the assumptions were correct the Fund would be fully funded after 17 years. However, the hope was that the investment returns should enable this to happen sooner.

Phil Triggs, Director of Treasury & Pensions queried when the next valuation would take place. Barry McKay noted that the next valuation would take place in March 2022. If a 4-year cycle was put in place this would commence in 2024 to align all public sector schemes.

**RESOLVED:**

THAT, the Sub-Committee approved the final 2019 Triennial Actuarial Valuation for the Pension Fund set out as Appendix 1.

**5. FUNDING STRATEGY STATEMENT**

Matt Hopson (Strategic Investment Manager), noted that the purpose of the Funding Strategy Statement was to establish a clear and transparent strategy on how to meet pension liabilities going forward. In addition, a small

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allowance for the McCloud case was bolted on to the liabilities to take a prudent approach.

**RESOLVED:**

THAT, the Sub-Committee approved the draft Funding Strategy Statement and subject to any comments or amendments, delegated final approval to the Director of Treasury and Pensions in consultation with the Chairman.

**6. RESPONSIBLE INVESTMENT POLICY**

Timothy Mpofu (Pension Fund Manager) introduced the draft Responsible Investment policy for the Council's Pension Fund, which was attached as Appendix 1 to this paper. The key considerations were noted. The policy document noted the Pension Fund's investment principles whose implementation was outlined on page 78 of the agenda pack.

Members were requested to comment on the investment principles set out in the report and whether they wanted any further information to be added to the document.

Members questioned how Appendix 1 would appear as part of the strategy document. Timothy Mpofu explained that this would be presented as a standalone policy document and would be published on the Council's website.

Councillor PJ Murphy noted that the Council had a primary fiduciary responsibility, and this needed to be included as part of the investment principles. Phil Triggs explained that this was included as part of the Investment Strategy Statement. However, Officers could add this to the investment principles and redraft the current document as per the request of the Sub-Committee. Members requested that paragraph 2 on page 80 of the agenda pack be reviewed and amended to reflect the comments made by the Sub-Committee.

The Chair requested that some figures relating to the Fund's carbon exposure be included under the policy implementation principle. i.e. to clearly highlight what the Council had achieved to date and the level of impact this had on the Fund's exposure to passive equities. In addition, it was requested that a paragraph outlining that the Council had declared a climate emergency and the consequences this had on the Fund, including its responsibility around carbon neutrality be added.

Members queried whether the Environmental, Social & Governance (ESG) report could be published on the Council's website to raise the interest of pensioners. Phil Triggs said that key information around the achievements made by the Council around ESG principles can be included as a stand-alone document as part of the report.

The Chair requested that each ESG principle be broken down to present each principle individually and not as a whole. In addition, Members noted that there was a great deal of positive information received from Managers in

relation to their contributions made towards ESG factors and requested that some of the highlights be included as part of the document.

Officers noted that these documents could be brought back to the Sub-Committee every quarter for comments and amendments. Members requested that an updated version with all the suggested feedback to brought to the next Sub-Committee for approval.

**Action: Phil Triggs**

**RESOLVED:**

THAT, the Sub-committee noted and commented on the report with a view of enabling officers to formalise and finalise the policy once the suggested feedback was incorporated to the document.

**7. INVESTMENT STRATEGY STATEMENT & ASSET ALLOCATION**

Timothy Mpofu (Pension Fund Manager), introduced the report and provided an update of the draft Investment Strategy Statement (ISS) which was included as Appendix 1 to this paper.

Councillor PJ Murphy felt that the Investment Strategy Statement was far more comprehensive than the previous statement and requested that officers provided an overview of the changes. In response Timothy Mpofu outlined the changes, noting that the main changes related to section 5 of Appendix.

Timothy Mpofu noted that section 6 of the Appendix made references to the sustainable development goals, including a selection process and ongoing engagement plans were outlined. A section in relation to training was also incorporated.

Councillor PJ Murphy asked whether the Council actively engaged with the Local Authority Pension Fund Forum (LAPFF). Officers noted that to date we only had Officer engagement. However, members of the Sub-Committee could be invited to LAPFF meetings in the future. Members requested that a briefing note on LAPFF be drafted and circulated to the Sub-Committee.

Members requested that section 6.5 of the Appendix be made more robust to reflect that the Council was engaging with companies to reduce their exposure to fossil fuels.

**ACTION: Timothy Mpofu**

**RESOLVED:**

- The Sub-Committee commented on the Investment Strategy Statement (ISS) and delegated authority to the Director of Treasury and Pensions in consultation with the Chair to publish the final ISS.
- The Sub-Committee commented on the investment beliefs within the questionnaire as prepared by the investment advisor.

## 8. QUARTERLY PERFORMANCE UPDATE

Timothy Mpofo (Pension Fund Manager), provided an update and noted that the Pension Fund Sub-Committee appointed Aberdeen Standard Investments (ASI) as the Pension Fund's new private multi-asset credit manager. It was agreed that a commitment of £55 million would be made with the capital expected to be called in the first quarter of 2020. In preparation for this investment the Pension Fund would start to liquidate £56 million of assets from its passive equity strategy in four tranches to spread the timing risk.

Members noted the transition timeline and approved the trade for selling down equities.

Timothy Mpofo provided a summary of the Pension Fund's overall performance for the quarter ended 31 December 2019 and noted that the value of the investments had increased, however the liabilities needed to be updated in line with the results of the Triennial Actuarial Valuation. The ESG report had been updated and ESG values had been incorporated. Key highlights were also added and broken down by Environment, Social and Governance factors.

Councillor PJ Murphy said that the ESG report didn't show in detail the level of work that had been carried out by the Council towards achieving its carbon neutrality target by 2030. He requested that further information regarding the progress made to date be included to the report to monitor progress.

Kevin Humpherson (Deloitte), provided a breakdown of the Fund's performance by Manager as at 31 December 2019. During October 2019, the Fund invested £20m into the LCIV Global Bond Fund with £10m from the LGIM Sterling Liquidity Fund and £10m from the Fund's bank account. In addition, the Sub-Committee committed to allocate £55m to Aberdeen Standards Investments Multi-Sector Private Credit Fund with the first close set to take place in Q1 2020.

Kevin Humpherson (Deloitte), explained that he had met with Aviva's Head of Infrastructure. He outlined the recent governance changes and noted that a briefing note would be circulated to the Sub-Committee. In addition, Deloitte would be meeting with M&G in light of the departure of Ben Jones and subsequent independent review of the firm's culture and behaviours.

Councillor PJ Murphy queried if the Council should be looking at other options. In response Kevin Humpherson said that any review would take into account the Fund's long-term strategic asset allocation, including whether the underlying long lease property allocation was still appropriate.

### **RESOLVED:**

THAT, the Pensions Fund Sub-committee noted the and commented on the report



Meeting started: 7:00pm  
Meeting ended: 21:15pm

Chair .....

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# Pension Fund Sub-Committee

## Minutes

Monday 9 March 2020

### **PRESENT**

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

**Apologies:** Michael Adam (Co-opted Member)

**Officers:** Phil Triggs (Director of Treasury & Pensions), Matt Hopson (Strategic Investment Manager), Timothy Mpofu (Pension Fund Manager), Dawn Auger (Assistant Director – People and Talent), David Coates (Head of Pensions Management)

**Guests:**

Nick Weaver (Interim Pension Manager – Surrey County Council)

#### **1. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Michael Adam (Co-opted member).

#### **2. DECLARATIONS OF INTEREST**

There were no declarations of interest.

#### **3. EXCLUSION OF 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.

#### **4. SURREY COUNTY COUNCIL PENSIONS ADMINISTRATION SERVICE - EXEMPT**

Discussion of this item can be found in the exempt minutes of the meeting.

Meeting started: 7:00pm  
Meeting ended: 21:22pm

Chair .....

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# Pension Fund Sub-Committee

## Minutes

Wednesday 22 April 2020

### **PRESENT**

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

**Co-opted members:** Michael Adam

**Officers:** Hitesh Jolapara, Strategic Director of Finance and Governance  
Phil Triggs, Director of Treasury and Pensions  
Matt Hopson, Strategic Investment Manager  
Timothy Mpofo, Pension Fund Manager  
David Abbott, Scrutiny Manager

*Note: This meeting was held remotely*

#### **1. APOLOGIES FOR ABSENCE**

There were no apologies for absence.

#### **2. DECLARATIONS OF INTEREST**

There were no declarations of interest.

#### **3. DELEGATING DECISION-MAKING TO THE CHAIR**

Phil Triggs, Director for Treasury and Pensions, introduced the report and explained why the delegation was necessary.

Councillor Matt Thorley asked if the committee would discuss decisions informally before they were formally agreed by the Director for Treasury and Pensions in consultation with the Chair. The Chair said he would like to hold informal discussions with committee members before decisions were taken.

The Chair noted that the recommendation had been amended to the following:

*“That the Pension Fund Sub-Committee delegate all decision-making to the Director for Treasury and Pensions, in consultation with the Chair, for a period of six months.”*

The recommendation in the report was unanimously agreed.

**RESOLVED**

That the Pension Fund Sub-Committee delegate all decision-making to the Director for Treasury and Pensions, in consultation with the Chair, for a period of six months.

Meeting started: 6.30 pm  
Meeting ended: 6.50 pm

Chair .....

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# Agenda Item 4

## London Borough of Hammersmith & Fulham

**Report to:** Pensions sub-committee

**Date:** 23<sup>rd</sup> June 2020

**Subject:** H&F Pension Abatement – proposed abolishment

**Report of:** Mary Lamont, Head of People & Talent

**Responsible Director:** Rhian Davies, Director of Resources

### Summary

This report recommends to the Pensions Sub-Committee that from 1 July 2020 the council should cease operating the abatement of pension benefits for certain H&F pensioners who are re-employed by an employer that operates the Local Government Pension Scheme (LGPS). If agreed, this will bring H&F into line with most other London local authorities and will eliminate all current discrepancies in the treatment of pensioners who may be re-employed following their retirement.

Additionally, considering the recent COVID-19 pandemic, although the Government suspension of abatement in the NHS pension scheme did not extend to re-employed members of the LGPS, the Government's policy is that pensioners who return to roles as key workers should not be financially penalised for helping tackle coronavirus (COVID-19). On 19 March the England & Wales Scheme Advisory Board (SAB) sent [a letter to the chairs of pension committees](#) to that effect and suggesting that administering authorities should adjust and publish their revised abatement policies as a matter of urgency.

### Recommendations

That the Council immediately cease the abatement of pension benefits for eligible H&F pensioners who are re-employed by an employer that operates the LGPS.

**Wards Affected:** None

### H&F Priorities

Our Priorities	Summary of how this report aligns to the H&F Priorities
Creating a compassionate council	An important feature of the pensions policy is the monitoring and adopting of approaches that protect the interests of our employees.
Taking pride in H&F	If agreed, this will bring H&F into line with most other London local authorities and will eliminate all current discrepancies in the treatment of pensioners who may be re-employed following their retirement.

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**Contact Officer:**

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Position: Head of People & Talent  
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**Background Papers Used in Preparing This Report**

None

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**THE CURRENT DISCRETIONARY ABATEMENT POLICY**

1. In its role as the administering authority for the LGPS, the London Borough of Hammersmith & Fulham is legally required to operate a discretionary policy covering those areas of the LGPS where it has local discretion within the regulations. One of the areas of local discretion for the administering authority concerns abatement.
2. Abatement is a technical term regarding the reduction or suspension of an LGPS pension where that pensioner re-enters the employment of another organisation that operates the LGPS. It comes into effect when the re-employed pensioner's annual pensionable salary in their new employment plus their H&F pension exceeds the value of their annual pensionable salary when they left H&F. Where this happens, the H&F pension is reduced by the excess amount for the duration of the pensioner's re-employment. The abatement is applied irrespective of whether the re-employed pensioner joins the LGPS with their new employer.
3. Until 31 March 1998 abatement was mandatory in the LGPS. From 1 April 1998 until 31 March 2014 it was discretionary.
4. With the introduction of the new LGPS career average (CARE) scheme on 1 April 2014 it was no longer permitted under the regulations to abate a pension where the scheme member only has CARE contributions. Consequently, a scheme member who only has membership of the LGPS from 1 April 2014 cannot have their pension abated.
5. The 2008 LGPS regulations also did not permit the abatement of a pension for a scheme member aged 55 or over who, with the agreement of their employer, takes flexible retirement and continues to draw a salary from the Council alongside their LGPS pension, provided they reduce their working hours or reduce their grade below the level they were enjoying prior to the flexible retirement.

6. Abatement cannot be applied to scheme members who re-enter employment as a teacher or who work for an employer that does not operate the LGPS.
7. Currently at H&F there are four pensioners whose pension is abated. The responsibility falls on the re-employed pensioner to inform Surrey Pensions Team of any re-employment to which abatement may be applied. Surrey Pensions also uses cross-checking of results from the annual National Fraud Initiative (NFI) to identify any cases where abatement may potentially apply.

## **RATIONALE FOR CEASING ABATEMENT**

8. Most re-employed pensioners that qualify for abatement keep their pensionable earnings with their new employer below the level that would require their H&F pension to be abated. Alternatively, others may re-enter local government as an employee of an agency, in which case the abatement cannot be applied because the Council is not the employer. Neither of these situations can be deemed advantageous for any local authority that seeks to recruit workers with previous local government experience.
9. Changes to the LGPS regulations described above have clearly reduced the number of re-employed pensioners to whom abatement may be applied, to the extent that it unfairly discriminates against certain types of pensioners seeking re-employment, especially those who have not flexibly-retired. This has been widely recognised by most other local authorities who have now discontinued the practice of applying abatement in all cases. In London only five authorities are known to continue some form of abatement, of which only one (Lewisham) has the same wide-ranging policy as H&F.
10. For these reasons the immediate cessation of the H&F abatement policy will bring the council into line with most other London local authorities and will eliminate all current discrepancies in the treatment of pensioners who may be re-employed following their retirement. It will also mean that any pensions currently in payment will no longer be abated from 1 July 2020, although there will be no refund of abated pension contributions prior to this date.
11. Abolishing abatement would require a simple change in the H&F Discretionary Policy so that section 6.4 of the policy would read as follows:

### “Administering Authority policy

From 1 July 2020 the administering authority will not abate any pension payments under Regulations 70 and 71 of the Local Government Pension Scheme (Administration) Regulations 2008 where a pensioner is re-employed by an employer who contributes to the LGPS, whether or not the pensioner chooses to recommence contributions to the LGPS. Pension benefits abated prior to 1 July 2020 will not be refunded to the scheme member because the administering authority’s policy was to abate pensions prior to this date.”

## **FINANCIAL IMPLICATIONS**



12. There are no financial implications for H&F's general fund because it does not affect the staff costs of any re-employed pensioner.
13. There is a cost to the H&F pension fund in that the small number of abated pensions in payment will no longer be abated from 1/7/2020 if the proposal is approved. For the four known people whose pension is abated, the estimated increased pension costs are under £50,000 a year. The longer-term impact depends on the number of LBHF pensioners with pre-2014 service who are re-employed, however the impact is expected to be insignificant compared to the total liabilities of the fund.

# Agenda Item 5

## London Borough of Hammersmith & Fulham

**Report to:** Pensions Sub-Committee

**Date:** 23/06/2020

**Subject:** Investment Strategy Update

**Report of:** Phil Triggs, Director of Treasury and Pensions  
Matt Hopson, Strategic Investment Manager  
Tim Mpofo, Pension Fund Manager

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### Summary

This paper provides an update on the London Borough of Hammersmith & Fulham Pension Fund's investment activity since the Pension Fund Sub-Committee approved the delegation of all decision-making to the Chair, in consultation with the Director for Treasury and Pensions in April 2020.

### Recommendations

The Sub-Committee is requested to:

- a. Formally approve the investment decision to investment 15% of the pension fund's investment assets into the LCIV Global Equity Sustain Fund.
- b. Approve the decision to a partial/full disinvestment from the M&G Inflation Opportunities Fund and commence the search for a replacement manager.

**Wards Affected:** None

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## LBHF Priorities

Our Priorities	Summary of how this report aligns to the LBHF priorities
<ul style="list-style-type: none"><li>Building shared prosperity</li></ul>	Being an outperforming investor means that as part of the Pension Fund's fiduciary duty, its investments should be able to assist in making a positive financial contribution, sharing prosperity and lessening the financial impact on council tax payers.

## Financial Impact

The financial implications of these investments will be continually monitored to ensure that members' pensions are safeguarded.

## Legal Implications

None

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## Contact Officer(s):

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Position: Director of Treasury and Pensions  
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Verified by Phil Triggs

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## Background Papers Used in Preparing This Report

None

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## **Investment Strategy Update**

### **1. Background**

- 1.1. The Pension Fund Sub-Committee agreed to delegate all its decision making powers to the Chair for a period of six months from 22 April 2020. The decision came after the Council's decision to cancel most of its public meetings as it faced the unprecedented challenge in responding to the COVID-19 pandemic.
- 1.2. Given the uncertainty in the financial markets due to the unknown implications of the global response to this pandemic, the Sub-Committee agreed it would be essential for critical decisions to continue to be taken to protect the fund and safeguard members' future pensions payments.
- 1.3. The Sub-Committee would continue to meet virtually on a regular basis to ensure that all members were kept up to date on the investment performance and risk management of the Pension Fund. All decisions made by the Chair during this period would be recorded and reported at the next available meeting of the Sub-Committee.

### **2. Decision: Investment in Global Active Manager**

- 2.1. Following the disinvestment from the LCIV UK Equity Fund, completed in December 2019, the Fund's 45% strategic allocation to equities was entirely invested in the Legal & General World Low Carbon Equity Index Fund. As at 31 March 2020, the Fund had £411.5m of its investment portfolio invested in the passive fund.
- 2.2. During the month of April 2020, the Sub-Committee, in consultation with the pension fund's officers and investment consultant, met several times to discuss how best to position itself to minimise its downside risk exposure and take advantage of the prevailing uncertainty in the financial markets at the time.
- 2.3. Subsequently, the Sub-Committee decided to allocate a third of the pension fund's equity allocation (15% of its overall investment portfolio) to an active equity manager and requested its investment consultant to present a shortlist of suitable strategies for the pension fund.
- 2.4. On 11 May 2020, four investment managers presented their strategies to the Sub-Committee. After further discussion amongst the members, an agreement was reached to appoint Morgan Stanley, who manage the LCIV Global Equity Sustain Fund, as the pension fund's new active equity manager.
- 2.5. The Sub-Committee expressed a clear preference for Morgan Stanley's investment process, citing the concentrated portfolio and lower correlation to the market. The Sub-Committee was particularly impressed with how the investment manager integrates environmental, social and governance (ESG) factors into their investment process. The pension fund considers ESG related

risks to be a significant factor in the long-term sustainability of the global environment.

### **3. Decision: Disinvestment in Inflation Linked Investment**

- 3.1. The pension fund has been invested in the M&G Inflation Opportunities Fund (IOF) since 2015. As at 30 April 2020, the pension fund had £113.0m invested with the fund.
- 3.2. In February 2020, the pension fund approved an asset allocation of 10% to inflation strategies and 5% to property. In order to meet the inflation objectives of this mandate, the IOF has a sizeable allocation to long lease property. This allocation effectively means that the pension fund's exposure to long lease property is around 9%, and exposure to UK commercial property (including income strips and ground rents) is around 13.5%.
- 3.3. Although the IOF has outperformed its return objective since inception, from a diversification standpoint, it has largely underperformed its expected sector allocation. 84% of the fund is exposed to UK commercial property compared with the expected 55% target allocation.
- 3.4. In addition, the IOF has a much larger exposure to the office, hotel and leisure sectors which have been significantly impacted by the lockdown measures put in place earlier this year as a means to minimise the spread of the coronavirus disease.
- 3.5. Whilst the full impact of these measures on these sectors is still unclear, the fund has already faced some challenges in rent collection which has led to more rent deferrals from the tenants.
- 3.6. As a result, the pension fund faces an increase to its cash flow risk which could lead to increased difficulties in paying out pension benefits if this is not addressed.
- 3.7. Therefore, the Pension Fund Sub-Committee is recommended to either partially or fully disinvest from the M&G Inflation Opportunities Fund and commence the search for a replacement manager to achieve the fund's diversification targets.

### **4. Risk Management Implications**

- 4.1. Risks are outlined within the report.

### **5. Other Implications**

- 5.1. None

### **6. Consultation**

6.1. None

**List of Appendices:**

(EXEMPT) Appendix 1: Active Manager Selection

(EXEMPT) Appendix 2: UK Property Market Exposure