

Pension Fund Committee Minutes

Tuesday 23 November 2021

PRESENT

Note: This was held as a hybrid meeting, with some members and officers attending in person and some joining online. A recording of the meeting can be found at: <https://youtu.be/L9J-SSxjGc>

Councillors in attendance: Councillors Iain Cassidy (Chair), Rowan Ree and Guy Vincent

Co-opted members joined remotely: Michael Adam and Peter Parkin

Officers in attendance: Phil Triggs (Director of Treasury and Pensions), Patrick Rowe (Pension Fund Manager), Matthew Hopson (Strategic Investment Manager)

Officers joined remotely: Dawn Auger (Assistant Director People and Talent), David Hughes (Director of Audit, Fraud, Risk and Insurance), Eleanor Dennis (Pensions Manager) and Rhian Davies (Director of Resources)

External Joined remotely: Chris Parker and Shamez Alibhai (Man Group)

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Matt Thorley, Helen Rowbottom and Jonathan Caleb-Landy.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES OF THE PREVIOUS MEETING

RESOLVED:

That the minutes of the meeting held on the 25th October 2021 were approved.

4. MAN GROUP UPDATE

Phil Triggs (Director of Treasury and Pensions) introduced this item and noted that a presentation would be provided by Man Group to update the Pension Fund Committee on the portfolio progress and the upcoming pipeline for future investments.

Chris Parker and Shamez Alibhai (Man Group) gave a presentation and noted the following key points, relating to the Man Group Community Housing Fund:

- The key features and the drivers of investment performance were summarised.
- The Fund had four strategic impact goals governed by a robust framework.
- The Fund's goals included additionality, affordability, social and environmental sustainability
- All prospective investments were assessed against the impact framework with new philanthropy capital.
- Since launching in April, the Fund had developed a strong portfolio and pipeline of advanced investments, having originated and analysed over 120 deals.
- Elements of the cashflow forecast for the Fund and an investment case study were also outlined.

Michael Adam (Co-opted Member) enquired how the Fund raising was progressing for the next close of accounts and how quickly Man Group anticipated reaching its target plan. In response Chris Parker (Man Group) explained that a substantial amount of work had been carried out with all the investors to meet the target plan. Currently Man Group had raised £135m to date and expected to double in value by the end of the Fund close in July 2022.

In response to a question asked by the Chair, Shamez Alibhai (Man Group) explained that one of the key areas included in the assessments for the location of the developments was to ascertain the accessibility of a public transport network. This was explored for each of the investments to ensure that there was a regular bus service running, to allow households to move around without requiring cars. Man Group felt that public transport connectivity was important from an environmental perspective as well as from a social perspective.

Councillor Guy Vincent asked what assurances could be provided that developments would not be carried out on a flood plain. Shamez Alibhai (Man Group) noted that when seeking investment opportunities, Man Group had been very clear that investing on a flood plain was not in scope with its objectives.

RESOLVED:

That the Pension Fund Committee noted the report.

5. UPDATE ON THE TRANSITION OF THE LGPS PENSION ADMINISTRATION SERVICE

David Hughes (Director of Audit, Fraud, Risk and Insurance) presented the report and gave a summary of the key points. It was noted that Officers were making good progress against the various project workstreams. Six of the key areas were now complete, progress on the outstanding three risks were detailed in the report.

The Chair enquired if Officers were confident with the completion date of the 26th January 2022. In response David Hughes (Director of Audit, Fraud, Risk and Insurance) noted that Officers were working closely with all stakeholders including working through a detailed project plan with Local Pensions Partnership Administration (LPPA), to ensure a smooth transfer from Surrey County Council (SCC) and the implementation of the new service with LPPA on 26 January 2022.

Councillor Guy Vincent asked for further clarification to be provided on the current position of SCC and enquired if there was a risk of SCC ceasing to trade. David Hughes (Director of Audit, Fraud, Risk and Insurance) noted that SCC would still be required to provide a service to the Council, following the exit plan in January 2022. Officers were aware that two other London boroughs were also planning to exit SCC and as a result there had been an impact on the service provided to the Council by SCC. However, Officers were working with SCC to ensure that the performance was at an improved level until the Council exited SCC next year.

Councillor Rowan Ree asked if all the outstanding actions would be completed by the end of the month. David Hughes (Director of Audit, Fraud, Risk and Insurance) noted that Officers were satisfied that work was progressing in the right direction, to ensure the completion of the outstanding actions within the timescales provided.

RESOLVED:

That the Pension Fund Committee noted the contents of the report.

6. PENSION ADMINISTRATION PERFORMANCE UPDATE

Eleanor Dennis (Pensions Manager) presented the report and gave a summary of the performance for SCC in providing a pension administration service to the Fund. The performance for over the last 2 months had fallen dramatically to the lowest levels this year in all areas apart from in the processing of new joiners. Although this drop in performance was disappointing, cases were still processed albeit a day or two later than the set service level agreement.

This dip in performance had been discussed with SCC and the importance of maintaining the Key Performance Indicators (KPI's) during this exit period reinforced. The dip in performance had primarily been as a result of a combination of poor resource management, managing the exit of other Funds

and the additional tasks required to be actioned by the team ahead of the exit date.

Councillor Rowan Ree asked for an overview to be provided on the lessons learned for the future and for being the last Fund to exit SCC. In response Eleanor Dennis (Pensions Manager) explained that the full review and findings of the lessons learned would be presented to the Pension Fund Committee in early 2022 once this exercise had been completed by Officers.

RESOLVED:

That the Pension Fund Committee noted the contents of the report.

7. PENSION FUND DATA QUALITY

Eleanor Dennis (Pensions Manager) presented the report and gave a summary of the data quality issues for the Council and the mitigations the Pension Manager was taking on behalf of the Fund to improve these. The project carried out by ITM had now ceased, with more than two thirds of records being updated. The remainder of cases not completed as part of the project carried out by ITM would be forwarded for completion by LPPA.

The Chair enquired how confident the Officers were, in providing LPPA with accurate data. In response Eleanor Dennis (Pensions Manager) noted that there had been legacy issues in relation to poor data being inherited from Capita and SCC were not solely at fault. ITM had carried out some work to improve the state of the data, helping the Fund's data to be migrated across to LPPA in a much healthier state and standing in good stead for the forthcoming valuation in 2022.

Councillor Guy Vincent enquired if SCC would continue to work with the Council at the end of the transition to support with the clear up of any outstanding data issues. He also asked whether the Council would be compensated for the performance failings of SCC and the additional charges paid to ITM. Eleanor Dennis (Pensions Manager) noted that LPPA, would be responsible for the data cleansing once all the data had been migrated across. LPPA were aware they would inherit some outstanding back-log issues and they had a dedicated employer engagement team to work through the outstanding cases. In addition, it was noted that discussions regarding compensation would be held with SCC in due course and the outcome of this matter would be brought to the next Pension Fund Committee.

Action: Eleanor Dennis

Councillor Rowan Ree enquired if there was a potential of a regulatory fine to the Fund. Eleanor Dennis (Pensions Manager) noted that discussions had been held with the Pension Fund legal advisors regarding the potential of a fine. They had confirmed that as the Pension Regulator took a pragmatic approach and as the Fund was actively rectifying the data issues identified with a third-party provider and SCC, this would be considered to be sufficient to satisfy the Regulator.

RESOLVED:

That the Pension Fund Committee noted the contents of the report.

8. PENSION FUND QUARTERLY UPDATE PACK

Patrick Rowe (Pension Fund Manager) presented the report and gave a summary of the key points.

Overall, the investment performance report showed that over the quarter to 30th September 2021, the market value of the assets increased by £16.2m to £1,276.8m. The Fund was in line with its benchmark net of fees by delivering a return of 1.7% over the quarter to 30th September 2021, and the estimated funding level was 94.0% as at 30th September 2021. Over the year to 30th September 2021, the Fund overperformed against its benchmark by 1.6%, returning 14.3% overall. It was noted that 8 ratings had been updated on the risk register. An additional Appendix (Breaches of the Law Log) had also been added to the quarterly update pack.

Kevin Humpherson (Deloitte) provided a summary of the investment performance for the quarter and the recent manager developments. Overall global markets performance was relatively flat with investors growing increasingly concerned with rising inflation. UK equities delivered a positive return, outperforming overseas markets. The highlights over the quarter to 30 September 2021 came from the Aberdeen Long Lease Property Fund, and Partners Group across both the MAC and Infrastructure funds, outperforming the relevant benchmarks.

Michael Adam (Co-opted Member) referring to the risk register asked for further clarification to be provided on the travel of direction for the liability risk 30. Phil Triggs (Director of Treasury and Pensions) explained that the upcoming actuarial valuation at 31st March 2022 would require a fresh assessment of the factors utilised in assessing the liability valuation, namely, the discount rate, CPI inflation, future investment return and longevity. Officers would ensure that members were sufficiently briefed during the process.

RESOLVED:

That the Pension Fund Committee noted the report.

9. DRAFT ANNUAL REPORT 2020/21

Patrick Rowe (Pension Fund Manager) presented the report and gave a summary of the key points. It was noted that the report presented the draft Pension Fund report and statement of accounts for the year ended 31st March 2021. Members were asked to comment on any matters in the draft Pension Fund Annual Report and delegate approval of the final document to the Director of Treasury and Pensions in consultation with the Chair.

The deadline for submitting the Annual Report was 30th September 2021. The statement of accounts was completed and handed to external audit in June

2021. However, due to resourcing issues, there had been delays in commencing the audit process. The audit was, however, currently underway. The draft Pension Fund Accounts were presented to Committee at the 21st July 2021 meeting.

Michael Adam (Co-opted Member) asked for a follow up to be provided on a previous action from the 21st July Committee meeting. This was to include a note to the draft accounts which explained the difference for the change in the management fees. In response Matthew Hopson (Strategic Investment Manager) confirmed that this would be included as part of the final accounts and would be added into the section of the annual report.

Action: Matthew Hopson

Councillor Rowan Ree enquired when the Pension Fund Committee would receive the independent auditors report. Matthew Hopson (Strategic Investment Manager) noted that the Pension Fund Committee would be presented with the report at the next meeting if the audit concluded on the expected end of January timescale.

Councillor Rowan Ree asked whether the Council would be issued with a sanction as a result of missing the submission deadline for the Annual Report. Matthew Hopson (Strategic Investment Manager) noted a sanction would not be issued. Officers had notified the London Councils of the delay in submission, due to resourcing issues from external audit in commencing the audit process and they had been very understanding.

Note: only members in attendance participated and voted on this item.

RESOLVED:

That the Pension Fund Committee

- Approved the draft Pension Fund Annual Report for 2020/21 and delegated the approval of the final version to the Director of Treasury and Pensions in consultation with the Chair.
- Noted the draft Pension Fund Accounts for 2020/21

10. GOVERNANCE REVIEW RECOMMENDATIONS

Phil Triggs (Director of Treasury and Pensions) presented the report and gave a summary of the key points. The log showed that good progress had been made, with 15 recommendations implemented, and 8 commenced.

RESOLVED:

That the Pension Fund Committee noted the log of recommendations.

11. INDEPENDENT INVESTMENT ADVISOR APPOINTMENT

Phil Triggs (Director of Treasury and Pensions) presented the report and gave a summary of the key points. The Pension Fund Committee agreed at the meeting of 21st March 2021 that it would be beneficial to appoint an

independent investment consultant to support the Committee's decision-making process. Officers were tasked with procuring a suitable shortlist of candidates for members to interview.

Officers had completed the process and provided members with a shortlist of three candidates that were interviewed on 22nd November 2021.

Note: only members in attendance participated and voted on this item.

RESOLVED:

That the Pension Fund Committee approved the appointment of a new independent consultant following the outcome of the recruitment process conducted on 22nd November 2021.

12. DARWIN LEISURE DEVELOPMENT FUND UPDATE

Matthew Hopson (Strategic Investment Manager) presented the report and outlined the key points. It was noted that the draft accounts for 2021 were currently being prepared by the Fund's administrator. This was quite a lengthy process as it involved consolidating all UK subsidiaries and Guernsey based entities, but Darwin would provide these as soon as they were available (likely to be mid to late December). Occupancy had remained strong since the parks reopened from the Covid-19 lockdown, with significant improvement seen in rates over the last three years set to continue into the next financial year. In addition, the Director of Treasury and Pensions had been in consultation with Darwin over fees and the agreed rate with a ten-year lock-in period.

Members discussed the report and a summary of this can be found in the exempt minutes.

The Chair proposed the following amendment be made to recommendation 2 in line with the views of the Pension Fund Committee:

- delegated authority to the Director of Treasury and Pensions in consultation with the Chair to approve the Pension Fund's 2.5% allocation (£32m) to the Darwin Leisure Development Fund to be funded from the existing secure income allocation with Oak Hill, following receipt of the draft accounts for 2021 and subject to further discussions being held with Darwin in relation to the fees and a five-year break clause.

Members unanimously agreed the amended recommendation as set out above.

Note: only members in attendance participated and voted on this item.

RESOLVED:

That the Pension Fund Committee

- Noted the report
- Delegated authority to the Director of Treasury and Pensions in consultation with the Chair to approve the Pension Fund's 2.5%

allocation to the Darwin Leisure Development Fund to be funded from the existing secure income allocation with Oak Hill, following receipt of the draft accounts for 2021 and subject to further discussions being held with Darwin in relation to the fees and a five-year break clause.

13. EXEMPT DISCUSSION (IF REQUIRED)

The sub-committee agreed, 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.

Meeting started: 19:05pm
Meeting ended: 20:15pm

Chair

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