London Borough of Hammersmith & Fulham

Pension Fund Committee

Minutes

Tuesday 26 November 2024

PRESENT

Committee members: Councillors Ross Melton (Chair), Florian Chevoppe-Verdier, Adam Peter Lang, Adrain Pascu-Tulbure and Laura Janes

Co-opted members: Michael Adam and Peter Parkin

Other Councillors: Councillor Ashok Patel

Officers: Phil Triggs (Tri borough Director of Treasury and Pensions) and Eleanor Dennis (Head of Pensions), Sian Cogley (Pension Fund Manager), David Hughes (Tri borough Director of Audit Risk Fraud), Mathew Dawson (Strategic Investment Manager)

Jonny Moore and Andrew Singh (Isio Group)

Marian George (Independent Investment Advisor)

Aviva
Jill Barber – Chief Distribution Officer
Daniel McHugh – Chief Investment Officer
Dave Sapsford – Client Relationship Manager

1. APOLOGIES FOR ABSENCE

There were no apologies for absence.

Apologies of lateness were received from Councillor Laura Janes

2. DECLARATIONS OF INTEREST

Adrain Pascu-Tulbure declared a non-pecuniary interest in relation to item 9 (Defence Company Stocks Discussion Paper)

3. MINUTES OF THE PREVIOUS MEETING

RESOLVED
That the open and exempt minutes of the meetings held on 10th September and 15th October 2024 were approved.

4. AVIVA INVESTORS REPRESENTATION

Phil Triggs (Tri Borough Director of Treasury and Pensions) introduced the item and noted that Aviva had agreed to join today's meeting to present to the Committee. He explained that final redemption payments totalling £13.9m were made in September 2024, circa £3.4m or 15% lower than the estimated figure of £22.7m (excluding redemption charge) if the full redemption had been received on time at the intended date of 31 December 2023. Taking income into account, this amounted to circa £2.5m for the LBHF fund.

Aviva had reimbursed the management fees on 25th November, covering the period starting 1st January to 30th September 2024. However, due to the delayed redemption, the Fund experienced a net loss of approx. £2.5mil from 1st January 2024. This loss was primarily driven by a decline in market value since 31st December 2023 to the date the final funds were received.

Jill Barber (Aviva) thanked the Committee for the opportunity to attend the Pension Fund meeting and acknowledged communication could have been improved, offering her apologies for this.

The Chair asked whether Aviva accepted the analysis provided by officers, that the Fund had incurred a net loss of £2.5 mil. Daniel McHugh (Aviva) noted that the Fund's asset value would fluctuate over time. From a private markets perspective infrastructure assets had experienced rising capital values over the last 10 years, up until 2023, due to a low-interest rate environment. However, the subsequent increase in interest rates, negatively impacted private market value, particularly infrastructure assets, supressing their capital values.

It was highlighted that for assets such as private markets and infrastructure, selling them in a structured manner to achieve the best market price often required time. This process involved marketing the assets, negotiating contracts and finalising disposals. During this period price movements could pose a risk. In 2023 significant price volatility was observed with investment volumes in private markets declining by at least 15% compared to previous years. Aviva felt that the estimated loss figure provided was noted to be unrelated to the Fund's ability to generate cash proceeds necessary to meet the redemption requirements.

Phil Triggs (Tri Borough Director of Treasury and Pensions) provided further information on the calculation of the loss. He explained that advice was sought from Isio (the Fund's investment consultant), who provided a definitive market valuation as of 31st December 2023. Based on this valuation, it was determined that if the funds had been received on time, the Fund would have realised an additional £2.5mil. The loss of £2.5mil occurred between 1st January and September 2024, the date when the final redemption payment was made.

Additionally, he noted that no assets were sold, nor were any proceeds generated by 31st December 2023, which contributed to the 9-month delay extending into 2024. He emphasised this as a key factor in the timeline for the redemption process.

The Chair requested Aviva to further clarify whether it accepted that the losses incurred were due to its shortcomings, specifically its failure to sell assets within the timeframe stipulated in the contract, rather than being solely attributed to external market conditions.

Daniel McHugh (Aviva) explained that Aviva had executed the process of raising capital and proceeds in a diligent and professional manner. They emphasised that their actions were in alignment with the documentation which specified no targets but rather an obligation to optimise returns where possible. Aviva further noted that the loss referenced was based on an estimated figure at a specific point in time and highlighted that such valuations could fluctuate in either direction.

Michael Adam (Co-opted Member) expressed concerns regarding the timing of the additional markdown in 2024. While he acknowledged the significant shift in market prices following the gilts crisis during 2022, he enquired about the events in 2024 that led to the further write down. Daniel McHugh (Aviva) noted that throughout 2023, the valuation of the Fund turned negative due to a combination of factors, including rising interest rates and broader market conditions. While the specific details of the capital value reductions at the fund level or the reasons for the further deterioration in 2024, were not available to hand, it was noted that various factors and variances could have contributed to the impact of the vale.

Phil Triggs (Tri borough Director of Treasury and Pensions) again clarified that the primary focus should be on the delay incurred in the time period between 31st December 2023 and September 2024. He stated that the events of 2023 were not relevant for this discussion, and that Aviva were bound by the contract to achieve the necessary sales in the 18-month period leading up to 31 December 2023.

Marian George (Independent Investment Advisor) acknowledged the frustration in the room regarding the Fund's performance and the delays in payment. She emphasised that much of this frustration stemmed from Aviva's poor communication and the lack of clarity on whether the assets being sold had experienced impairment. She further highlighted that the Committee felt a level of complacency regarding the valuations and felt that the lack of effective communication was a key factor driving the dissatisfaction.

Aviva apologised if the Committee felt that misinformation was provided and appreciated the reasons behind their frustration due to communication. Daniel McHugh (Aviva) explained that these were complex transactions, with the final figure being influenced by market conditions at the time of sale. The process required time to identify the right buyers and complete thorough due diligence. The primary objective was to maximise the proceeds returned to the Fund's investors, and it would not have been in Aviva's interest to act otherwise.

Councillor Laura Janes expressed concern that communication from Aviva could have been significantly better and requested further clarification on whether misinformation had been provided to the Committee in July 2024. Jill

Barber (Aviva) responded that while she did not believe misinformation was provided, Aviva acknowledged at the time that information could have been clearer. She emphasised that Aviva acted in the best interest of all the Fund's investors.

Councillor Laura Janes further remarked that the Council received far less information than they were entitled to, which she deemed unacceptable despite Aviva's acknowledgement that things could have been better. In response Jill Barber (Aviva) clarified that the information shared with the Committee was accurate and provided with the expectation that redemption payments would be made on time. However, she admitted that the information provided was insufficient and accepted that this was a shortcoming on Aviva's part.

Councillor Adam Peter Lang expressed his disappointment, stating that he felt Aviva had not acted professionally and should be concerned about the impact on their reputation. He emphasised that the Council was accountable to its members and a loss of £2.5mil was a significant amount. He further stressed that reputation was critical in any business and urged Aviva to reflect on the seriousness of the situation.

Andrew Singh (Isio) explained that the markdown of assets was driven by the net asset value (NAV) of the Fund. While he acknowledged some truth in the statement that valuation figures were estimates, he emphasised that private market funds, including Aviva relied on third party specialists to provide accurate estimates based on market conditions and transaction volumes. As such these valuations should carry a degree of reliability. He noted that the NAV had declined by further 15% between December 2023 and September 2024 and expressed concern about the lack of clarity surrounding this decline. Andrew Singh noted that it would be important to gain a better understanding of the factors contributing to this drop.

Daniel McHugh (Aviva) noted that this was a very detailed piece of work and stated that they did not have the specific information readily available. They assured the Committee that this information would be provided outside of the Committee.

Marian George (Independent Investment Advisor) advised that a full written analysis be provided to Phil Triggs as soon as possible so this could be circulated to the Committee.

Action: Aviva

The Chair expressed continued dissatisfaction with the lack of clear answers provided by Aviva. He noted that it was surprising and disappointing for a Fund manager to attend the Committee meeting without being able to provide clarity on the single key question.

RESOLVED

The Pension Fund Committee discussed the shortcomings of the redemption process (Infrastructure Income portfolio) with Aviva

5. KEY PERFORMANCE INDICATORS

Eleanor Dennis (Head of Pensions) introduced the report which covered the performance of the Council's administration partner LPPA over Q2 for the pension fund scheme year 2024/25. This covered the period July to September 2024 inclusive. During the period LPPA processed 1582 SLA cases, which was an increase of 117 cases from Q1. Performance above target was achieved in all case types in Q2. The key improvements appeared in retirement and bereavement cases.

Councillor Florian Chevoppe-Verdier thanked Eleanor Dennis and her team for their hard work and notable achievements. He enquired about the level of support her team continued to provide to LPPA. In response Eleanor Dennis explained that her team was still actively offering support, including addressing a few key cases during this period that required intervention and solutions. She acknowledged that LPPA had not yet fully reached the desired level of quality.

Councillor Florian Chevoppe-Verdier felt that while LPPA appeared to be fulfilling their role to some extent, their reliance on support from Eleanor and her team suggested that they might not be fully meeting their targets. This raised concerns around the accuracy of the reporting. He questioned whether LPPA would still be able to meet their SLA's if all the support currently provided by Eleanor's team, was withdrawn. Eleanor Dennis acknowledged the validity of this point, noting that the impact of such reliance would likely be reflected in qualitative data, particularly in member satisfaction scores. These scores were most evident in key areas such as retirement and bereavement. In addition, she noted that LPPA were committed to providing the best service to all of their clients.

RESOLVED
That the Pension Fund Committee noted the update.

6. PENSION ADMINISTRATION UPDATE

Eleanor Dennis (Head of Pensions) introduced the report which covered a summary of activity in key areas of pension administration for the Council's Pensions Fund Including good progress on readiness for the pensions dashboard and noting a slightly increased average wait time on the telephone Helpdesk. A paper on the Fund's compliance to the pension regulators general Code would be presented at a future Committee meeting.

Councillor Adrain Pascu-Tulbure requested further clarification on the impact of the reform's announcement by the Chancellor in the Mansion House Speech on pension fund administration. Eleanor Dennis confirmed there were no plans in the short and medium term to change pension fund administration. What was clear was the governments focus on the pooling of LGPS investments. She explained that there was an open HMRC consultation addresses the intended changes to inheritance tax legislation and unused pension benefits and death benefits. Highlighting responsibility shifting to administrators that would need them to calculate the tax liability and ensure it was deducted from any death grant payments before disbursing them to beneficiaries.

Phil Triggs noted that in relation to the amalgamation of funds, there had been an expectation of potential fund mergers, particularly in London. However, he pointed out that the Chancellor's speech and the accompanying consultation document made it clear that no fund mergers were planned. As a result, there would be no need to merge administration processes.

RESOLVED
That the Pension Fund Committee noted the update.

7. DRAFT ANNUAL REPORT 2023/24

Sian Cogley (Pension Fund Manager) provided a summary of the key points. The report included the draft Pension Fund Accounts 2023/24 and was a regulatory requirement. This was required to be approved by the Pension Fund Committee. The draft Pension Fund Annual Report for 2023/24 is attached as Appendix 1.

Councillor Adrain Pascu-Tulbure offered several suggestions, noting that on page 80, it would be helpful to include the overall investment as a percentage of UK assets. On page 84, adding explanatory paragraphs to provide further clarity on the rise in administration costs would be beneficial. Additionally on page 55, it was recommended to include recognition of the contributions made by the co-opted members on the committee. Sian Cogley commented that the changes would be incorporated into next year's annual report as part of following the new Pension Fund Annual Report Guidance for Local Government Pension Scheme Funds.

Councillor Laura Janes requested that the name be corrected on page 54.

Action: Sian Cogley

RESOLVED
That the Pension Fund Committee approved the draft Pension Fund Annual Report for 2023/24 and delegated the approval of the final version to the Director of Treasury and Pensions in consultation with the Chair.

8. SECTION 13 VALUATION

Sian Cogley (Pension Fund Manager) gave a summary of the key points. It was noted that the report and appendices provided the Pension Fund Committee with an update on the Government Actuary's Department's Section 13 report on the 2022 LGPS triennial actuarial valuation.

RESOLVED
That the Pension Fund Committee noted the Section 13 report for the 2022 triennial valuation.

9. DEFENCE COMPANY STOCKS DISCUSSION PAPER

Phil Triggs (Tri Borough Director of Treasury and Pensions) provided a summary of the key points. Officers requested information from all investment managers. The information requested covered a list of all current investments made by the pension fund in companies involved in the manufacturing, distribution, or sale of arms and weaponry as of 30 June 2024. Details of any investment policies or guidelines that pertain to investments in the Defence sector, particularly those related to arms and weaponry for the products that the LBHF Pension Fund is invested in. It was noted that the exposure to companies involved in the manufacturing, distribution, or sale of arms and weaponry across the whole portfolio was 3.5%. It was noted that removing that exposure from the fund would present a significant challenge. Additionally, Section 3 outlined the Committee's fiduciary duty to the fund.

The Chair thanked officers for their analysis. He observed that this represented a relatively small investment for the Fund, with the majority held indirectly through index-tracker pooled fund assets where the Committee had some influence but very limited control. He highlighted that as the UK navigated an increasingly challenging international climate, the ethical considerations surrounding investments in Defence were evolving. The Committee would undertake a responsible review of these investments and continue to monitor them closely.

Councillor Laura Janes reiterated the point she made at the last Pension Fund Committee about making sure the Committee took some time to review its ethical investment principles and that this was a priority in her view.

A member of the public was invited to ask a question. He pointed out that several Council's in London were divesting from Defence-related investments and suggested that the Council should also consider doing the same in the near future. He felt that exiting pooled funds was not as difficult as it might seem and urged the Council to take a moral stand on this. The Chair responded that the committee would not be making any commitments at this Committee but assured that it would continue to review its ethical principles.

Councillor Adam Peter Lang noted that the Committee regularly addressed ethical issues and was not complacent about the wider geopolitical events. He emphasised that the Committee frequently sought advice from its advisors, with ethics being a key consideration for all members.

Phil Triggs (Tri borough Director of Treasury and Pensions) confirmed that there was no current exposure to Elbit Systems within the table included in the report.

RESOLVED
That the Pension Fund Committee discussed the Fund's exposure to the weapons sector, shown as Appendix 1.

10. RENEWABLE INFRASTRUCTURE AND DATA CENTRES MANAGERS

Phil Triggs (Tri Borough Director of Treasury and Pensions) explained that following the Chancellor's Mansion House speech, and the release of the LGPS consultation paper, the planned interviews for data centres had been cancelled in coordination with the Committee Chair. However, interviews with Quinbrook, had been conducted prior to this meeting to assess the Fund's renewable infrastructure allocation.

Michael Adam (Co-opted Member) enquired whether there would be an opportunity to revisit the data centres at a later date. Phil Triggs responded that officers had sought guidance from London colleagues, with whom they met regularly. The consensus was that once control for selection of these assets was transferred to the pool and the 100% asset transition target was reached by 31st March 2026, responsibility for the fund manager selection, including implementation and manager appointments would rest solely with the pool. If data centres were to become part of the London CIV's offerings, the Committee may then consider them in the future.

Councillor Adam Peter Lang expressed his support for the decision made by the Chair to cancel data centres, noting that it was a prudent choice given the circumstances.

RESOLVED

The Pension Fund Committee approved the renewable infrastructure allocation to Quinbrook, subject to obtaining further information. Final approval was delegated to the Director of Treasury and Pensions in consultation with the chair.

11. PENSION FUND QUARTERLY UPDATE (END OF SEPTEMBER 2024)

Sian Cogley (Pension Fund Manager) provided a summary of the key points for the of the Pension Fund's performance for the quarter ended 30 September 2024. It was noted that overall, the investment performance report showed that the market value of the assets increased by £3m to £1,374m

Jonny Moore (Isio), noted that the Fund had underperformed its benchmark net of fees by 0.4%, delivering an absolute return of 1.23% over the quarter. The total Fund delivered a positive return of 10.29% on a net of fees basis over the year to 30 September 2024. He provided a summary on Darwin management, noting that it had implemented a 23% write down to net asset value and a more comprehensive update could be found in report on page 259. It was advised that the most effective approach was to adopt a wait and see strategy, allowing the fund time to recover while continuing to monitor its progress and keeping the Committee informed.

Michael Adam (Co-opted Member) asked whether the discount rate was tied to the base rate rather than gilts. Jonny Moore confirmed that this was correct and noted that a more detailed analysis would be provided outside of the Committee meeting.

Action: Isio

Phil Triggs emphasised that, ultimately at some future juncture, an approach would be made by a major leisure body to take over the Darwin leisure portfolio with an offer based on market sale values at that time. Such an offer would reflect the location and profitability of the assets within the Darwin portfolio, which should comfortably exceed the current prudent approach insisted on by the Darwin external auditor. While marked down balance sheet values should be monitored and discussed, it was unlikely that they would influence future sales negotiations when that time comes.

Members emphasised the importance of continuing to closely monitor the Darwin investment moving forward and welcomed further analysis on this matter.

In response to a member's question, Phil Triggs provided a summary of the new appointments made at the LCIV, including the Chief Executive. He noted that there was substantial evidence to suggest a promising future for the LCIV.

Councillor Adam Peter Lang requested training on the recent Mansion House update and the Fit for the Future consultation. This included guidance on how the outcomes of the consultation would unfold.

Action: Phil Triggs

Councillor Laura Janes requested additional ESG training focused on ethical principles. Sian Cogley noted that officers had received potential dates from Isio and were working on the most effective way to share this information with members.

Action: Sian Cogley

RESOLVED

That the Pension Fund Committee noted the update

12. EXCLUSION OF THE PUBLIC AND PRESS (IF REQUIRED)

The 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: 7:00pm
Meeting ended: 9.00pm

Chair ....

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