

London Borough of Hammersmith & Fulham

# Pensions Sub-Committee Minutes



**Wednesday 30 November 2016**

## **PRESENT**

**Committee members:** Councillors Michael Adam, Nicholas Botterill, Iain Cassidy (Chair), PJ Murphy and Guy Vincent

**External Guests:** Melanie Stephenson from Barnett Waddingham and Kevin Humpherson from Deloitte

**Officers:** Peter Carpenter, Peter Metcalfe, and David Abbott

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

The minutes of the meeting held on 21 September 2016 were agreed as a correct record and were signed by the Chair.

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

There were no apologies for absence.

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

There were no declarations of interest.

### **4. PENSION ACTUARIAL VALUATION AND FUNDING STRATEGY STATEMENT**

Peter Carpenter presented the report and noted that Melanie Stephenson of Barnett Waddingham had attended to update the Sub-Committee on progress with the 2016 actuarial valuation. A draft funding strategy statement reflecting the changes to the CIPFA guidance was presented for consideration.

Melanie Stephenson presented an updated version of the slides at appendix 1 of the report. She noted the following points:

- The overall picture was positive – the funding level for the whole fund had increased to 87 percent.
- Section 13 of the Pensions Act provided for an independent review by the Government Actuary Department (GAD) – they would be looking at compliance, consistency, solvency, and long term cost efficiency.
- Section 13 was introduced to improve governance and give people a better understanding of how funds were performing in relation to each other.

- The LBHF fund was around the middle of the pack of funds that had reported so far.

Councillor PJ Murphy asked what the risks of non-compliance were regarding Section 13. Melanie Stephenson responded that the main risk was reputational as GAD's reports would be made public. If a fund was considered to be failing in their duties they could recommend higher payments but that would only happen in extreme cases.

Councillor Michael Adam asked how it could be that in 2013 the fund was 83 percent funded and in the top 25 percent of funds but in 2016, at 92 percent funded with the new S13 valuation, it looked to be in the lower middle percentile. Melanie Stephenson responded that not all funds had reported in yet and it was likely that the better performing funds reported first. A large proportion of the funds that had reported were in the 90 to 100 percent funded range so the LBHF fund's position was relative. Councillor Adam commented that the data presented didn't tally with the message from Government that the LGPS was in trouble.

Councillor Nicholas Botterill asked what the changes were to the discount rate. Melanie Stephenson said the rate had come down from 6 percent in 2013 to 5.4 in 2016 as the expectation of future investment returns had come down. While the funding level had improved the future service rate had gone up – i.e. the cost of benefits would be more expensive.

Councillor PJ Murphy commented that the low expected returns seemed out of sync with historical data. Melanie Stephenson said her firm used yields from investment markets and projected forward, the expectations were that they would be lower than they have been in recent years.

Councillor Michael Adam asked for clarification on why, if the fund was 92 percent funded and investment returns had been consistently good recently, hadn't liabilities reduced more. Liabilities seemed to have grown with asset growth. He also noted that some of the assumptions seemed highly unlikely – e.g. assuming a 4 percent increase in salaries. Melanie Stephenson responded that while markets had been performing well recently the figures presented represented a prudent long-term view with continuing expectations of low inflation and low investment yields.

Councillor Michael Adam said he would be interested to see a fan chart that gave some perspective on the fund's risk profile. Melanie Stephenson said she could provide that. Peter Carpenter said it would also be helpful for the Sub-Committee to get an explanation in plain English of how the calculation worked. Councillor Guy Vincent agreed that it would be useful to see the financial model.

Councillor Michael Adam noted that he had been looking at a product that could reduce the volatility of return and asked if that would be taken into account in the assumptions. Melanie Stephenson said it could be considered, after looking at the equity return. Kevin Humpherson asked if there was a way of modelling the expected return for infrastructure as that might increase the

overall expected return. Melanie Stephenson noted that even if the figures changed slightly and the recovery period shortened, the fund should still aim to keep payments in relatively stable.

The Chair asked what the timeline for a final funding strategy report was to Full Council. Hitesh Jolapara responded that the report would be going to Budget Council in February. To meet that timeline, the strategy had to be confirmed by mid-January.

The Sub-Committee noted that the new Funding Strategy Statement had to be completed by 1 April 2017 and that this would be based upon the draft contained within the papers.

The Sub-Committee agreed the following recommendations:

#### **RESOLVED**

- The Sub-Committee asked the actuary to produce a range of sensitivities with an adjusted prudence assumption to show the impact on the discount rate.
- The Sub-Committee asked the actuary to look at modelling expected return for infrastructure and also a slight reduction in the Prudence allowance – as in the figures presented infrastructure had been treated the same as property.
- Officers were asked to arrange a meeting once the updated figures had been produced to approve the draft Funding Strategy Statement.
- That officers continue with the drafting of the new Funding Strategy Statement to be produced at the next meeting.

#### **5. PENSION FUND QUARTERLY UPDATE PACK**

Peter Carpenter presented the quarterly update pack for the quarter ended 30 September 2016. He noted that the afternoon sessions meeting the fund managers had sufficiently covered the updates in the report. The Committee agreed that it had been a good exercise and noted that there were no concerns with any of the managers.

#### **RESOLVED**

That the report was noted.

#### **6. PENSION BOARD MINUTES**

Councillor PJ Murphy suggested it would be useful for the Pensions Board to have a session to meet with the fund managers.

#### **RESOLVED**

The Sub-Committee recommended that the Pensions Board had a session with the fund managers.

## **7. LONDON CIV UPDATE**

Peter Carpenter presented the report and noted that LGIM portfolio was now fully invested in the All World index after the cash being held for emerging market equities was invested in October 2016. The London CIV had agreed with Majedie for the UK equity fund to be available on the platform. The report recommended that the whole of the current Majedie portfolio was transferred to the CIV on a base plus performance fee basis, saving an estimated £104,000 per annum. The advice from Deloitte was to pay a flat rate fee plus performance.

Councillor Nicholas Botterill asked why Deloitte were recommending a flat fee. Kevin Humpherson responded that the flat rate was 30 basis points, already slightly lower than the current rate and they expected the fund to outperform.

Councillor PJ Murphy asked if the Council could modify the management fee if the fund manager changed. Kevin Humpherson said he would check and provide that information after the meeting.

Councillor Michael Adam asked what the average fee was, including performance. Kevin Humpherson said it was very close to the fee cap, between 90 basis points and 110. The new fee structure could result in a saving of 50 basis points on average.

### **RESOLVED**

1. That the Sub-Committee agreed to transfer all the assets currently managed by Majedie Asset Management Equity fund to the CIV Majedie Equity Fund when it became available. That the Majedie Focus and Tortoise funds be looked at in terms of balances that could be used to 'rebalance' the overall investment portfolio back to the planned distribution.
2. That the sub-committee agreed the fee basis for the Majedie UK Equity fund to be the base fee plus performance fee.

## **8. INVESTMENT REGULATIONS**

Peter Carpenter presented the report and noted that the Investment Strategy Statement will have to be in place by the end of March in time for the new financial year in April. He also noted that as part of this, the sub-committee would be required to review its policy on ethical, social and corporate governance issues. He advised that the London CIV should be invited to the next meeting to discuss their governance arrangements and how the interface between Councils, the CIV, and fund managers would work in practice.

### **RESOLVED**

1. That the sub-committee noted that a draft Investment Strategy Statement (ISS) prepared in accordance with the revised investment regulations and guidance will be presented to the 15th March 2017 meeting.

2. That the sub-committee discussed the requirement for greater detail on environmental, social and corporate governance (voting) matters including greater consultation with interested parties, including the Pension Board, which will have to be reflected in the ISS.
3. That a meeting be set up in January to ascertain Members views in relation to investments and Risk to feed into the new Funding Strategy Statement and Investment Strategy Statement.

## **9. PENSION FUND MANAGER MONITORING**

Peter Carpenter presented the item, noting that the first of the fund manager monitoring sessions took place on 12 October 2016 with five fund managers attending to brief the committee on their performance and outlook for the future. The main issue arising from that session was the negative outlook for equity markets and likely future returns. The second session with the remaining fund managers took place prior to the sub-committee meeting on 30 November 2016. He asked members for their feedback on the sessions.

Councillor Adams noted that he liked the format but felt there was no need to have two sessions per year if performance was good. There should instead be one annual session with managers invited to attend again if they had underperformed.

### **RESOLVED**

That the report was noted.

## **10. DATE OF THE NEXT MEETING**

The next meeting was scheduled for 15 March 2017.

## **11. EXCLUSION OF THE 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.

## **12. LONDON CIV UPDATE - EXEMPT ELEMENTS**

The exempt elements of the report were noted.

Meeting started: 7.00 pm  
Meeting ended: 8.50 pm

Chair .....

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