

Pensions Sub-Committee

Minutes

Wednesday 15 March 2017

PRESENT

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

External Guests: Kevin Humpherson from Deloitte

Officers: Peter Carpenter, Peter Metcalfe, Susan Hands and Amrita Gill

1. MINUTES OF THE PREVIOUS MEETING

Peter Carpenter noted the following correction under Item 7 – London CIV Update:

Delete “The advice from Deloitte was to pay a flat fee plus performance” and replace it with “The advice from Deloitte was to pay a flat fee”.

RESOLVED

That, with the above correction, the minutes of the meeting held on 30 November 2016 were agreed as a correct record and were signed by the Chair.

2. APOLOGIES FOR ABSENCE

Apologies for lateness were received from Councillor PJ Murphy.

Apologies for absence were received from Councillor Nicholas Botterill.

3. DECLARATIONS OF INTEREST

There were no declarations of interest.

4. DRAFT PENSIONS BOARD MINUTES

RESOLVED

That the minutes of the meeting held on 7 February 2017 were agreed as a correct record.

5. PENSIONS FUND QUARTERLY UPDATE PACK

Peter Metcalfe presented the quarterly update pack for the quarter ended 31 December 2017 and noted that the value of the fund had increased to £982.1 million as at 31 December 2016.

Kevin Humpherson, in reference to page 19 of the agenda, noted good performance over the last quarter with key drivers being Majedie and banking sector stocks.

Councillors noted that the pension fund risk register needed to be updated as all items were categorised as either low or very low risk. Councillors also requested further detail on voting rights and for the forward plan to be updated to reflect the London CIV visit and the administration strategy for the September meeting.

RESOLVED

That the report was noted and the new items be added to the forward plan

6. PENSION FUND ACTUARIAL CERTIFICATION

Peter Carpenter presented the Draft Certification Report from the Council's actuary, Barnett Waddingham, certifying the rates that would be used for 2017/18, 2018/19, and 2019/20 were appropriate and would reduce the overall pension deficit in the appropriate timescales.

Councillors asked what the discount rate needed to be if the figures were to change for the funding level to hit 100%. Peter Carpenter estimated the figure to be around the mid 6% level and would get confirmation from the Actuary.

Councillors queried why when Public Sector Schemes funding levels were decreasing that Private Sector Deficit figures were increasing. Peter Carpenter would confirm why this was the case.

RESOLVED

That the Sub-Committee noted that the Pension Fund rates to be used by the Council, Admitted and Scheduled bodies for the next 3 years and the Actuaries draft certification that these rates were appropriate to reduce the deficit in line with Government Actuarial requirements.

7. UPDATE TO ISS LEGISLATION AND FUNDING STRATEGY STATEMENT

Peter Carpenter presented the item and noted that that the Committee, at its meeting on 30th November received a paper setting out the requirements of a new Investment Strategy Statement (ISS) which replaced the existing Statement of Investment Principles (SIP). The new ISS had been completed and was presented for approval. The current Investment Strategy was not altered because of the introduction of the ISS.

Following the final Actuarial Report, section 7.2 of the draft Funding Strategy Statement (FSS) had been amended. In addition, Section 12 had been corrected to refer to the new ISS and not the previous SIP.

Councillors asked that section 6.1 was amended to include wording on social responsibility.

RESOLVED

1. That the Pensions Sub-Committee approved the new ISS required by changes of Legislation to be implemented as at the 1st April 2017.
2. That the Pensions Sub-Committee approved the changes made to the Draft Funding Strategy Statement approved in the November 2016 meeting.

8. **LONDON CIV UPDATE**

Peter Carpenter presented the report and noted that Councils were requested to move Pensions Fund assets into Collective Investment Vehicles (CIV) to create economies of scale and achieve lower fees and greater returns from investment managers. The paper set out what opportunities were available through the London CIV and the pipeline of investment managers that would become available in the near-term.

Councillors asked how much of the equity-based funds would be transferred to the CIV. Peter Carpenter said the majority of equities would move to the CIV when Majedie transferred but passives couldn't transfer due to a legal issue that was still being worked through. It was estimated that around 60 percent of the total fund would be transferred to the CIV (or using products with CIV negotiated fees) by the end of the summer.

Councillors asked how the onboarding was progressing compared to the other pools. Peter Carpenter said that London CIV was ahead but others were starting to catch up, particularly as some were making inclusion mandatory. Councillors also queried how manager meetings would work in the future, as the Sub-Committee's relationship would be with the CIV and not the fund managers.

Councillors asked how the move to London CIV would affect the way the sub-committee operated. Peter Carpenter said that the sub-committee would still be responsible for setting its asset allocation, however it might lose the discretion of screening individual fund managers. Peter Carpenter said that he would provide a briefing on the implications for the governance of the fund.

Councillors asked for clarification on whether the CIV or the sub-committee had the primary fiduciary responsibility. Peter Carpenter said that the fiduciary responsibilities remained with the sub-committee, as well as ensuring that the investment strategy was exercised and all legislative responsibilities were delivered. He advised that the London CIV should be invited to the next meeting to discuss governance arrangements and how the interface between the Council, the CIV, and fund managers would work in practice.

RESOLVED

That the Pensions Sub-Committee noted that the present position regarding Fund Managers presently available via the London CIV, and the pipeline of

Managers becoming available and used this to inform future investment decisions.

9. INVESTMENT STRATEGY REVIEW

Peter Carpenter presented the report and said that the council had had its triennial valuations, therefore the Investment Strategy needed to be reviewed to ensure it met the funds fiduciary responsibilities.

Councillors asked if officers agreed with the findings of Unigestion's asset allocation analysis – i.e. if the fund was more heavily weighted towards equities than previously thought. Kevin Humpherson said he agreed that some instruments used by the fund were 'equity-like' in that they performed in-line with equity markets and that the fund should explore alternative.

Councillors noted that the equity markets had made significant gains recently and suggested locking-in some of the gains the fund had made or hedging against a downturn. Peter Carpenter said he would arrange a sub-group to undertake this work and estimated that the first meeting of this grouping would be in around 6 weeks.

Councillors, referring to page 106 of the agenda, asked if there was now a statutory obligation to take account of 'environmental, social, and economic constraints'. Kevin Humpherson said there was no obligation but it was important to look at what a 'good company' was – good governance in particular was a key indicator for performance.

Lewis Coenen-Rowe of Friends of the Earth attended the meeting to discuss divestment from companies involved in the extraction and burning of fossil fuels.

The Chair asked officers if they knew the extent of the fund's investments in fossil fuels. Peter Carpenter said he could provide that information for discussion at the first sub-group meeting.

Councillors asked how 'green' funds' returns compared with funds that included fossil fuel companies. Kevin Humpherson noted that the Future World Fund's performance tracked very closely to the index, even surpassing it slightly. He said he could put together more information on alternative funds for consideration at a future meeting.

The Chair asked for an assessment of the impact of divesting from fossil fuel companies.

In addition, Councillors queried if Companies adhered to Fund Manager ESG Policies and how this was measured.

Peter Carpenter highlighted that the CIV now have a Low Carbon Officer Working Group and the next meeting was on the 28th March. He would circulate the Councils on that working group to the Sub-Committee.

Councillors were presented with a protocol for moving Investment assets into the CIV for approval. This was agreed. In addition the Sub-Committee were informed that there was a requirement for a Stewardship Policy and a Social Responsibility Policy. These would be drafted for agreement at the next meeting.

Councillors asked that the draft policy on social responsibility and stewardship included a section on the powers of pension funds to tackle excessive executive remuneration.

RESOLVED

That the Pension Sub-Committee considered the options set out in this report to provide direction to future worked required by the Pension Fund to take forward:

- It's future investment Strategy
 - It's Environment, Social and Governance Polices
- While ensuring it keeps within its fiduciary responsibilities.

That to move the requirements forward that the Pension Sub Committee:

- Set up working group in 6 weeks time to re-examine the Fund's Investment Strategy taking account of funding requirements following the triennial valuation and agreement of the ESG Policy including assessment of "Carbon Free" requirements set out in the report.
- Agreed the proposed London CIV transfer protocol
- Become part of the London CIV Low Carbon Group
- Draft and agreed a Stewardship Strategy and a Socially Responsible Policy.

10. UPDATE OF MANAGERS MEETING THAT TOOK PLACE ON 30 NOVEMBER

Peter Carpenter provided an update on the managers meeting.

11. DATE OF THE NEXT MEETING

The next meeting was scheduled for 20 June 2017.

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

Chair

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