PUBLIC MINUTES OF MEETING PENSIONS COMMITTEE AND BOARD HELD ON Tuesday, 20th November, 2018, 19:00 – 20:45

PRESENT: Cllr White (Chair), Cllr Bevan (Vice-Chair), Cllr Amin, Cllr Dennison, Cllr Moyeed, Cllr Morris, Ishmael Owarish, Keith Brown, and Randy Plowright.

214. FILMING AT MEETINGS

The Chair referred Members present to agenda Item 1 as shown on the agenda in respect of filming at this meeting, and Members noted the information contained therein.

215. APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr Ross; Cllr Morris substituted.

216. URGENT BUSINESS

The Chair approved Cllr Bevan's request to discuss private equity as an urgent item of business. This was discussed at Item 14.

217. DECLARATIONS OF INTEREST AND CONFLICTS OF INTEREST

No declarations of interest were made.

218. RECORD OF TRAINING UNDERTAKEN SINCE LAST MEETING

Cllr White, Cllr Bevan, Cllr Dennison, Cllr Amin, Cllr Moyeed, Cllr Morris, Cllr Ross, Randy Plowright, Keith Brown and Ishmael Owarish attended a training session delivered by London CIV on 20/11.

Further notification of training received prior to the meeting had been submitted as follows:

<u>Cllr White</u>

- Attended LGPIF Responsible/Alternative Investing Summit – 2/10
- Attended European Sustainable Investment Summit – 9/10
- Attended LAPFF business meeting – 10/10
- Attended LAPFF All Party Parliamentary Group AGM – 10/10
- Attended seminar on Affordable Housing for LGPS Pension Funds – 6/11
- Attended London CIV Infrastructure Forum – 8/11
- Attended Ministry for Housing, Communities and Local Government (MHCLG) and Local Government Pension Scheme Advisory Board (SAB) Infrastructure event – 15/11

Cllr Bevan

- Attended LBH Pensions training 13/09
- Attended IPE Seminar, A rules based approach to integrating climate risk 18/09
- Attended Local Government Pension Scheme Governance - going our separate ways19/09
- Attended IPE Collaboration and Innovation an Evolving Asset Class 17/10
- Attended IPE Credit & Alternative Credit 31/10
- Attended DB Strategic Investment Forum 07/11
- Attended SPS Current Investment Issues for Pension Funds Conference 08/11
- Attended Russell Investments Summit 14/11
- Attended SPS Local Authority Pension Fund Investment Strategies Conference 15/11

219. MINUTES

Resolved

That the minutes of the meeting held on the 13th of September 2018 be approved as a correct record of the meeting.

220. PROPERTY INVESTMENTS

This report for noting, introduced by Thomas Skeen, Head of Pensions, provided an update to members regarding property investments previously discussed at the 13th September 2018 meeting. It was highlighted that Members of the Pensions Committee and Board (PCB) had previously expressed an interest in exploring the possibility of investing in residential property, in particular property that would display high ESG credentials and cover a broad spectrum of affordability levels. At the PCB's previous meeting, it had been noted that the Fund's current property commitments would fall short of the Fund's strategic allocation to property. The London CIV were invited to the 20th November 2018 meeting to discuss with the PCB the potential for the CIV to include a residential property investment option.

Larissa Benbow, Head of Fixed Income for the London CIV, addressed the PCB regarding the matter. In addressing the CIV's position on property, the PCB was informed that data was being collected from local authorities to ascertain the general consensus, and that there was an appetite amongst boroughs for investing further in property. There was currently a total allocation of £3.6bn for investment in property, of which £800mil was cash waiting for deployment with the remaining amount already invested. The CIV had initially intended to create a single property fund; however, given the appetite for different types of property, this position looked likely to change to at least two funds. £3.2bn of the total allocation was looking for just UK property, with the remaining amount allocated to global property. The CIV was seeking to understand what local authorities required from property mandates, to inform how the CIV should design their property fund offering. Early discussions with local authorities had indicated that investment with traditional commercial property investments, such as retail, offices and warehouses, was the prevailing consensus. However, some local authorities had indicated a preference for looking at other types of property investment, such as social housing and the private rental sector. All London Funds were due to be sent a survey in order for the CIV to gain an understanding of how funds wanted to deploy their property allocations.

Regarding ESG credentials, the PCB was informed that the CIV had recently approved a Responsible Investment Policy for its stakeholders, which maintained that investment should be conducted in a responsible manner. Regarding long lease properties, there was an opportunity to impose on those letting properties that they be run in an environmentally friendly way. ESG was at the heart of the research process undertaken by the CIV, and it imposed as many ESG terms as possible on funds.

The PCB were further informed of the projected timeline for the CIV's property targets. This included launching a UK Property Fund and a Global Property Fund in 2019. Selecting a fund manager was not going to be an issue.

The Independent Advisor, John Raisin, noted that local authorities historically had to take what fund managers offered. The London CIV now provided local authorities with more scope to engage, and the 2016 investment regulations and statutory guidance had specifically allowed for some return to be foregone for social impact purposes. Equally, one employer within the fund could not undertake any action that would disadvantage any other employers within the fund. The council, as the administering authority, would therefore not be able to do anything that was in the interest of one employer but not others within the Fund. The Independent Advisor questioned whether the CIV could develop a fund which was a combination of, for example, private housing for "young professionals," affordable housing, social housing, and temporary accommodation. Such an approach would deliver a social impact as well as serving the necessary investment purpose. The CIV advised the economy of scale was there and so this was the type of fund it would be able to explore. If such a residential property fund could be delivered, the CIV would request that a focus was made on, for example, London. It would be too difficult to be specific with the geographical targets but general geographical areas were an option to be explored.

The PCB noted that social renting at council rents would be high on the agenda of local authorities for the CIV to provide. The CIV noted that it would not be possible to guarantee this as they needed to ensure that the investments were a viable solution for the local authorities to invest in, to meet necessary return requirements.

The PCB queried whether the creation of such a new fund discussed above would create additional administrative duties for the Council. The Head of Pensions noted that there would be an increase in additional administrative duties for the Pensions Team but far less than it would have been otherwise because it would be through an existing fund manager, the London CIV.

The Chair noted that he and the Head of Pensions had attended a meeting with other local authorities regarding pension funds investing in genuinely affordable and social housing. At the meeting, an argument was made that it was possible for the pension funds to invest in an option that included social housing that did not affect the discount rate calculated by fund actuaries. The Head of Pensions noted that it would never be possible to invest 100% in social housing because the returns would not provide a great enough return for the fund, however a lesser percentage could be potentially viable, and determining this percentage was key.

The Chair informed the PCB of the London CIV Infrastructure Forum he attended on 8th November. The presentation included reference to a factory producing modular housing. Although presented as an infrastructure option, it was possible to invest in as a pension fund.

Resolved

To note this report, including verbal information that was given by representatives from the London Collective Investment Vehicle (CIV) at this meeting.

221. PENSIONS ADMINISTRATION REPORT

This report, introduced by Janet Richards, Pensions Manager, detailed a breakdown of the number of visits made to the Haringey Pension Fund website. The PCB was informed that, on average, the website received 373 users per month, who each viewed roughly four and half pages.

The report also provided the PCB with an update on the Annual Benefit Statement issue that had been reported to it at the 13th September 2018 meeting. The PCB was informed that the Pensions Team had consulted with its legal team and they had advised that, following investigating the issue and having consideration to the guidance issued by the Pension Regulator, the breach was not one that was materially significant and, therefore, it was not necessary for the Pension Fund to report it as a ‘Material Breach’.

The Pensions Manager informed the PCB that in order to prevent a reoccurrence of the situation, it had been decided that it would be appropriate to upload the Annual Benefit Statement onto the Member Self Service portal from 2019. However, the PCB were advised that an update to the existing software provider, Heywood, was required for them to be able to do this. It was further noted that the existing software was due to be withdrawn from service in April 2020. The PCB were asked to approve the additional one-off cost of £52,000 for Licence and Implementation, and £8,000 per annum for the Hosting and Support, and maintenance for the upgrade to new Member Self Service. The intention was for the Annual Benefit Statement to be sent both via post and electronically on the Member Self Service in 2019. From 2020, members would receive their Annual Benefit Statement from the Member Self Service only, and not via post.

Following discussion, the PCB were divided over whether the move to sending the Annual Benefit Statements out electronically only from 2020 was appropriate. Amongst the concerns raised were:

- Given that the average number of monthly users to the Haringey Pensions Website equated to approximately 5% of all its members, the switch to sending Annual Benefit Statements via Member Self Service could result in a large number of members not viewing their statements. The PCB felt that more engagement with members and promotion of the Haringey Pensions Website were needed before such a switch;

- Active members who did not have access to the internet might not be able to view their Annual Benefit Statements from 2020; and
- Whilst the Pensions Team was able to inform its staff of the potential change, the other employers in the scheme might not pass this information onto their employees.

Officers addressed the concerns of the PCB and noted that:

- Active members could be advised in their August payslips that their Annual Benefit Statements would be available on the Member Self Service from 31st August.
- The Pensions Team could also send an email reminder to its staff when the Statements could be viewed.
- Modernising would allow members to have access to their statements electronically throughout the year and removed the potential for paper statements to be lost.
- Member Self Service was due to be upgraded in 2020. A delay in the delivery of the new Member Self Service could occur because of other local authorities all upgrading at the same time. Being proactive and upgrading in 2019 would avoid that potential delay.
- It would be too great an administrative burden for the Pensions Team to explore an opt-out option for its 7,000 members if they preferred to continue to receive the Annual Benefits Statements through the post.
- There would be a future cost saving by the switch, and after five years the Fund would start to see a return on the savings from the annual £10,000 it paid to post the Annual Benefit Statements.
- Pensioners did not receive Annual Benefit Statements and these were only sent to active or deferred members of the fund, who are by definition of working age.

The PCB's Independent Advisor noted that it was within the Pensions Manager's authority to require that employers inform their employees of the switch to receiving Annual Benefits Statement electronically. The employers had a duty to co-operate and could be asked to include the information in their newsletters or staff bulletin notices, for example.

The Committee decided that it would approve the proposals but continue to monitor the transition period to observe the level of engagement from employers, the level of engagement from members with the Haringey Pensions Website and any further feedback from PCB members regarding the switch from paper to electronic Annual Benefit Statements.

Before the permanent proposed change from 2020, the Committee would review this decision and, if it felt it appropriate to do so, reverse it.

Resolved

That the Committee:

- note that the report gives a breakdown of the amount of visits made to the Haringey pension fund website;
- note the late notification of active members' Annual Benefit Statements due to an administration error in the external third party printers' mailing process and agree that the matter should not be reported to the Pension Regulator on the basis that the breach is not a material breach;
- approve the additional one off cost of £52,000 for Licence and Implementation and £8,000 per annum for hosting, support and maintenance for the upgrade to new Member Self Service. This will allow the upload of the 2019 annual benefit statements onto Member Self Service so active members can access their annual benefit statements on the scheme's website.

222. UPDATE TO FUNDING STRATEGY STATEMENT (FSS)

This report, introduced by the Head of Pensions, asked the PCB to note and approve the Funding Strategy Statement, which had been updated following the enactment of the Local Government Pension Scheme (Amendment) Regulations 2018. The PCB had previously been informed of the change in the regulations regarding the introduction of exit credits at its July 2018 meeting. The Funding Strategy Statement had since been amended to incorporate the exit credit concept.

The PCB further discussed Appendix 2, which can be found in the exempt minutes.

Resolved

That the Committee approves the Funding Strategy Statement (FSS), included at Appendix 1.

223. FORWARD PLAN

This report on the Forward Plan for noting, introduced by the Head of Pensions, detailed the topics that would be brought to the attention of the PCB through March 2020. The report also sought Members' input into future agenda items.

The PCB was given an overview of the Forward Plan and its attention was drawn to the items on the agenda of the 21 January 2019 meeting, at pages 73 and 74. It was hoped that, regarding the 2019 valuation initial work, the Council's employer contribution for the next 3 years could be set.

The Chair noted that it was probable the Friends of the Earth would be present at the March 2019 PCB meeting and that they had started a petition on seeking support for divestment in fossil fuels. In anticipation of this, the PCB requested earlier publication of the relevant report.

Resolved

That the Committee note the report and the Forward Plan.

224. RISK REGISTER - REVIEW/UPDATE

The PCB considered this report for noting on the Risk Register, introduced by the Head of Pensions. It was advised this was a standard item on the agenda and that they had a legal duty to review internal controls and the management of risks.

The Head of Pensions went through the Risk Register with the PCB and highlighted:

- the change in the probability of risk for, *'The Pension Fund Statement of Accounts does not represent a true and fair view of the Fund's financing and assets'*. The PCB were informed that at the previous meeting, this risk's probability was two but had been revised to one as the previous two years had good audits and the key staff responsible for that were still at the Council.
- the change in the impact of risk for, *'Internal controls are not in place to protect against fraud/mismanagement'.* The PCB were informed that, at the previous meeting, this risk's impact was four but had been elevated to five following concern of the potential for fraud and its reputational impact on the Fund, should any occur.
- that red rated risk number 48, '*The risk that the investment strategy adopted by London CIV through fund manager appointments does not fully meet the needs of the Fund'* would be reviewed following discussions with London CIV regarding residential property.

Resolved

1. That the Committee note the risk register.

2. That the Committee note the area of focus for this review at the meeting is 'Accounting' and 'Investment' risks.

225. PENSION FUND QUARTERLY UPDATE

This report for noting, introduced by the Head of Pensions, provided an update on the funding level, Investment asset allocation and investment performance of the Fund in respect of the three months to 30th September 2018.

The PCB was informed that, at the most recent full valuation of the Fund as at 31st March 2016, the Fund had a funding position of 79.1%. The Fund's Actuary, Hymans Robertson LLP, had calculated an indicative funding position update for 30th September 2018, and this showed an improvement to a 90.4% funding level.

The Head of Pensions updated the PCB on the Fund's higher than usual cash balance, a result of approximately £40 million being set aside to cover the transfer of pensions funds for the College of Haringey, Enfield and North East London, which was due to leave the Fund. The PCB were informed that this transfer had been completed on 14th November 2018 and the College had now left the Fund.

The Independent Advisor, John Raisin, addressed the PCB regarding the report he had prepared on the 'Market Background July to September 2018', highlighting significant events that had affected the market during this time. These included the performance of US equities, which had experienced a positive quarter due to the strong performance of the US economy. This contrasted with emerging markets, which had generally had a difficult quarter.

The PCB questioned the difference in performance between the US and the rest of the world, asking whether a two-tier system was emerging. The Independent Advisor noted the decision of the Bank of England to increase interest rates, as well as the general move away from quantitative easing, with the European Central Bank signalling its intention to end its €2.5tn quantitative easing programme in December 2018.

The PCB was concerned about the disparity between global markets, with the US market outperforming the non-US market by roughly 10 percent. The PCB questioned whether it was appropriate to begin reallocating assets. The Fund's Investment Consultant noted that the Fund had already taken proactive steps to reduce volatility in early 2018 and suggested that it was advisable to consider "equity protection" to support the equity risk. The PCB were advised that it would not be in the interests of the Fund to reduce equity allocation, because that would undermine the discount rate used by the actuary.

Resolved

To note the information provided in respect of the activity in the three months to 30th September 2018.

226. LOCAL AUTHORITY PENSION FUND FORUM (LAPFF) VOTING UPDATE

This report, introduced by the Head of Pensions, provided an update to the PCB on voting activities on behalf of the Fund. The PCB had previously agreed that the Fund should cast its votes at investor meetings in line with LAPFF voting recommendations.

The PCB raised concern at the recent changes to the Executive Committee of the LAPFF and the ramifications this might have, but hoped it would find members of equal standing to maintain the good work of the LAPFF.

In response to a query as to whether officers could observe and potentially participate in discussions at meetings of the LAPFF, officers noted that, given these were meetings for members, this would likely not be appropriate. The Independent Advisor noted that these were member-led forums and therefore the presence of advisors and officers could be seen as undermining the purpose of it being member led.

Resolved

That the Committee note this report.

227. NEW ITEMS OF URGENT BUSINESS

As an item of urgent business, Cllr Bevan raised concerns over private equity, specifically:

- the conduct of private equity firms;
- a lack of transparency in how the private equity firms carried out their work and their costs;

- the way in which private equity firms operated; and
- the ethics of the business actions of private equity firms.

Cllr Bevan noted that the Fund's Pantheon Private Equity had underperformed its benchmark by 0.07% (page 103 of the report) and closed by suggesting a future Item on the agenda for the PCB to discuss the issue of private equity as a whole and the concerns raised above.

The Head of Pensions responded to Cllr Bevan, firstly noting that the figures on page 103 were not appropriate to assess the performance of Pantheon Private Equity, as they included cash which was being held for capital calls. The figures on pages 100 and 101 provided an overview of Pantheon's performance with the cash removed. Pantheon had outperformed its benchmark by 0.87% in the quarter July – September 2018 and by 0.49% over the past 5 years. It was accepted that while the private equity asset class had the highest fees, historically it provided the highest returns. If private equity was taken out of the allocations, employers could see their contribution rates increase. Furthermore, Pantheon offered reduced fees for Local Government Pension Schemes.

The Fund's Investment Consultant highlighted the five year performance of private equity, noting that it was both the best performing and best return asset class. He accepted that there had been unsavoury practices associated with private equity and that it was therefore important to invest with reputable firms. He stated that in his view Pantheon was such a reputable firm. If the PCB had any concerns/questions regarding private equity, they were recommended to invite Pantheon to provide a training session in which those concerns/questions could be discussed.

The Independent Advisor noted the developments in cost transparency, particularly in the last two years. He informed the PCB that the Local Government Pension Scheme Advisory Board had introduced a Code of Transparency in 2017. The code was voluntary but asset managers were encouraged to sign up to it to demonstrate their commitment to transparent reporting of costs. The PCB were also informed that the Financial Conduct Authority had set up an Institutional Disclosure Working Group, which included stakeholders. The Group's aim was to gain agreement on (cost) disclosure templates for asset management services provided to institutional investors. This would send the message to asset managers that if they did not engage or sign up, investors would not invest with them. The Independent Advisor felt the industry was moving in the right direction and engagement with institutional investors was better than it had been in previous years. He reiterated the Investment Consultant's view that Pantheon were a reputable private equity firm.

ACTION - It was decided that officers would invite BlackRock to attend the PCB's 14th March 2018 meeting and Pantheon to attend the PCB's July 2018 meeting.

228. EXCLUSION OF THE PRESS AND PUBLIC

Resolved

That the press and public be excluded from the meeting for consideration of item 8 as it contains exempt information as defined in Section 100a of the Local Government

Act 1972 (as amended by Section 12A of the Local Government Act 1985); para 3; namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

229. UPDATE TO FUNDING STRATEGY STATEMENT (FSS)

As per the exempt minutes.

230. NEW ITEMS OF EXEMPT URGENT BUSINESS

None.

CHAIR: Councillor Matt White

Signed by Chair ………………………………..

Date …………………………………