MINUTES OF THE MEETING OF THE PENSIONS COMMITTEE AND BOARD HELD ON TUESDAY, 20TH MARCH, 2018

PRESENT:

Councillors: Clare Bull (Chair), John Bevan (Vice-Chair), Mark Blake, Viv Ross and Noah Tucker

Employer / Employee Members: Keith Brown, Ishmael Owarish and Randy Plowright

165. 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.

166. APOLOGIES FOR ABSENCE

There were apologies for absence submitted from Cllr McShane and in accordance with Committee Standing order 53 and 54 Councillor Adamou substituted.

There were also apologies for absence from John Raisin, the financial adviser to the Committee.

167. URGENT BUSINESS

There were no items of urgent business submitted.

168. DECLARATIONS OF INTEREST AND CONFLICTS OF INTEREST

There were no declarations of interest put forward.

169. RECORD OF TRAINING UNDERTAKEN SINCE LAST MEETING

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

Cllr Bevan

- Pensions CIV Sectoral Joint Committee 31/01/18
- LAPF Strategic Investment Forum 07/02/18
- AON Pension Conference 2018
- London Councils Pensions CIV Sectoral Joint Committee 14/03/18
- SPS Local Authority Pension Fund Investment Issues 15/03/18

Cllr Viv Ross attended a round table dinner discussion on 'longevity' for Chairs of Pension Schemens and experienced Trustees at AON Hewitt offices, Leandenhall Building London EC3.

170. MINUTES

The Committee noted that correspondence, relating the Pensions Board and Committee views that it should be mandatory for the Chair of Corporate and the Chair Staffing & Remuneration Committee to sit on the Pensions Committee & Board and that the term should be for 4 years. It was agreed appropriate for the letter be submitted to both political party whips and this issue be discussed at group meetings in May.

Action : Vice Chair

RESOLVED

That the minutes of the meeting held on the 18th of January 2018 be approved as a correct record of the meeting.

171. AUDIT PLAN

The Committee considered a report which set out the audit plan prepared by the external auditors, BDO, for the audit of the Pension Fund accounts 2017/18 for the Committee's consideration.

The Committee noted the scope of the audit and the areas of risk which would be investigated. There was not yet a position reached whereby the pension accounts could be included in the council statement of accounts.

The Auditor outlined the type of investigations that would be taken including: valuations, data, market average as manipulative, testing contributions to make sure employees making correct payments, membership data will be checked, indirect costs will be analysed, whether fund managers are being transparent on unit price. Also related party transactions would be looked at to check that benefits paid were correct

The Auditor would report back findings to Committee in July 2018.

In response to a question, noted that an example of indirect costs was stamp duty and the auditor would review what was being claimed on the Council's behalf. It was important to understand the elements of the unit price.

RESOLVED

To approve the 2017/18 Audit Plan prepared by BDO

172. PENSIONS ADMINISTRATION REPORT, INCLUDING REVIEWED/UPDATED PENSIONS ADMINISTRATION STRATEGY

The Committee considered a report which set out a review of the Pensions Administration Strategy Statement. The report also provided a breakdown of the amount of visits made to the Haringey Pension Fund website.

The new strategy took account of the updated rules on data protection as outlined at page 68. It was noted that pensions records of staff and staff who had left the authority , would be kept according to LGA guidelines. The Committee noted the importance of keeping to these requirements as an employee may have left the authority but their contributions may continue to make a return and would be claimable in the future by the ex- employee or their relative, if they are deceased.

In response to a question from Cllr Ross regarding Urban Futures employee contributions, it was noted that the council were seeking these through the insolvency process. Assurance was provided that this payment was being pursued and the Council would expect to obtain these payments in full.

RESOLVED

1. To approve the updated Administration Strategy Statement.
2. To note and approve the application of the Local Government Association's (LGA) guidance on retaining pensions data for the Data Protection Act 2018 purposes.
3. To note the cessation of Urban Futures (London) as an Admitted Employer to the Pension Fund.
4. To note the contents of this report in respect of the administration of the Pension Fund.

173. EQUITY STRATEGY REVIEW AND TACTICAL REBALANCING

The Chair agreed to vary the agenda to consider item 9, immediately after consideration of the minutes as Cllr Bevan would need to leave the meeting to attend Planning Committee.

The Head of Pensions introduced the public part of the report which set out a review of the fund's existing equity strategy, along with actions that could be taken in relation to this.

The Committee noted that Haringey Pension Fund had increased in value by roughly £350m since the 2016 valuation, and the majority of this increase was attributable to continued global stock market growth. This had materially improved the fund's funding level , however, these gains could be reversed before the date of the next triennial valuation in 2019, should stock markets decline and this would impact on employer contribution rates.

The Committee noted that the Fund's equity was currently all invested passively in market cap weighted index linked funds, with set percentages allocated to different geographic regions. 50% of the developed market equity was invested in global low carbon funds, this was also market cap weighted, however with a tilt away from certain stocks to create a significant decrease in exposure to carbon emissions and carbon reserves.

The Committee were asked to consider potential changes to the strategy of investing only in line with market cap indices, as well as the use of fixed allocations to specific geographic regions, and were asked to consider both alternative index use and active equity management.

Following presentation of the exempt information from Mercers attached at item 16 , and discussion on the merits and draw backs of the 3 models of investment proposed, which concentrated on the management fees applicable following a change in strategy, and the general risks perceived around an active style management, ,there was a vote on the proposed strawman equity portfolios, set out in the exempt part of the report.

Strawman 3 - [set out as a recommended option at 3.2] received 2 votes and Strawman 2 received 4 votes.

RESOLVED

1. To approve a change to the fund's investment strategy to implement strawman **2** equity portfolio as shown in the exempt appendix 1 attached at item 16, namely to;

- Allocate 42.6% to multi factor portfolio.
- Allocate 14.8% to market cap portfolio
- Retain the current allocations to emerging market equity and low carbon equity, but to switch all of the low carbon portfolio into a currency hedged fund, to retain the fund's overall 50% currency hedged position in developed markets

2. To grant delegated authority to the CFO to implement this investment strategy change, including any due diligence necessary with the requisite fund managers, and to effect the movement of investment assets.

3. To grant delegated authority to the Head of Pensions to update the Fund's Investment Strategy Statement and republish this, consistent with any changes agreed, as detailed above.

<u>Tactical Rebalancing:</u>

4. To agree to a tactical rebalancing of the portfolio, as detailed in Confidential Appendix 2 as 'option 3', but namely to complete a rebalancing of 75% of the fund's overweight equity position:
    - Allocate 50% of the fund's overweight equity position to the fund's multi asset absolute return strategy
    - Allocate 25% of the fund's overweight equity position to the fund's multi asset credit strategy
    - Retain 25% of the fund's current overweight equity position as equity holdings.

Reason for Decision

Equity Strategy Review

The fund has a commitment to investing in a manner which not only secures sufficient returns to meet the fund's strategy to increase the overall funding level, but which also takes serious consideration of environmental, social and corporate governance (ESG) factors. Mercer has previously reviewed the fund's low carbon strategy, and this was increased from 33% of developed market equity to 50% of developed market equity in the summer of 2017. This paper does not propose any change to this part of the equity strategy.

The equity portfolio is all invested in market cap index linked funds: this essentially means that the portfolio invests in line with the stock market as a whole, and therefore produces returns that should be equal to the average stock market performance. For example, the Fund's UK equity holdings track the FTSE All share index, so the returns are equal to the performance of the FTSE All share. Broadly, this means that the fund's equity portfolio is only exposed to one 'style' of equity investment. Utilising a number of different styles or factors in the portfolio which are complimentary and can counterbalance one another, could reduce the volatility of returns for the fund as a whole. This is detailed further in Mercer's report.

One of the downsides of investment in market cap indices is that the fund is increasingly exposed to the largest and most expensive companies in each index. Over the past few years this has been strategy that has greatly benefitted the fund, due to prevailing market conditions, and sustained stock market growth. However, this strategy is unlikely to perform well if we enter a period of equity market decline, and in this scenario, the fund could actually suffer disproportionate losses: reversing some of the recent gains made.

It is therefore sensible to reconsider the current equity strategy of investing 100% in market cap indices, (albeit with a partial low carbon tilt), and consider other equity investment strategies with the aim of hopefully smoothing the fund's returns, and trying to reduce the fund's dependence on one particular style of equity investment. This is a move to diversify the fund's equity strategy further: in the best interests of the fund's membership, and particularly employer base, as investment returns impact on employer contributions to the fund.

The current equity strategy also has fixed allocations to specific geographic regions. This is problematic, as the allocations made in the strategy at one point in time are not agile, and do not allow for the fluctuating size of different geographies within the global economy. For example, the Fund's current allocation to UK equity is significantly overweight when considered within a global context, as the weighting to UK equity was determined prior to the Brexit vote in 2016, and the UK stock market has since shrunk as proportionally. This can be overcome by the use of a global index which automatically rebalances different geographic weightings. A global index is currently used by the fund currently within the low carbon portion of the portfolio. Strawman portfolios 2 and 3 in the paper produced by Mercer address this problem fully, strawman portfolio 1 partially addresses this.

Tactical Rebalancing:

Mercer have produced Confidential Appendix 2 with advice to the Committee and Board regarding the fund's current overweight position in equity.

The fund has appointed a number of private market or real asset fund managers in recent years: the long lease property and renewable energy infrastructure mandates. These mandates are illiquid and take a number of years to fully invest. The funds waiting to be drawn down to these investments are all currently held temporarily within the equity portfolio, and this equates to roughly £141.6m at the time of writing. This takes account two bulk transfers that will occur later in the year, and which will both be funded by equity drawdowns, estimated at £50m. However, as Mercer suggest in confidential appendix 2, this £141.6m figure should be updated in light of the 28 February valuation as soon as this becomes available (it was not at the time of writing).

The fund has allocated 5% to renewable energy infrastructure (with Copenhagen Infrastructure Partners and Blackrock), but it will take a number of years before this is all invested. The fund has also allocated 5% to a long lease property mandate (with Aviva). This is likely to be invested later in 2018. The funding for these investments is currently all held and invested within the fund's equity portfolio, on a temporary basis, until these fund managers have sourced appropriate assets, and are able to invest the funds.

The equity portfolio is the most volatile section of the investment portfolio overall. There is therefore a risk that equity markets may decline, and consequently the valuation of these funds temporarily allocated to equity will drop.

To hedge against this risk, it is therefore recommended that the Committee and Board consider a tactical rebalancing of the portfolio, in order to rebalance this temporary overweight position in equity, and to move a portion of this £141.6m into funds held with Ruffer and CQS, to hedge this risk that the equity holdings fall in value. Moving the funds would be a relatively quick exercise due to the liquidity of all three investments.

The paper produced by Mercer has looked at a number of options:

- Option 1 essentially rebalances 100% of the overweight position in equity, and splits this as follows:
  - 50% allocated to the fund's multi asset absolute return strategy (London CIV – Ruffer)
  - 50% allocated to the fund's multi asset credit mandate (CQS).
  - 0% remains within equity.

- Option 2 essentially rebalances 50% of the overweight position in equity, and splits this as follows:

    - 25% allocated to the fund’s multi asset absolute return strategy (London CIV – Ruffer)
    - 25% allocated to the fund’s multi asset credit mandate (CQS).
    - 50% remains within equity.

- Option 3 essentially rebalances 75% of the overweight position in equity, and splits this as follows:
    - 50% allocated to the fund’s multi asset absolute return strategy (London CIV – Ruffer)
    - 25% allocated to the fund’s multi asset credit mandate (CQS).
    - 25% remains within equity.

Mercer have indicated that they have a marginal preference for option 3, however that they are also supportive of option 2.

Other options considered

The exempt paper from Mercers at item 16 contained a number of options for the fund’s equity strategy.

174. WORK/FORWARD PLAN

The Committee was invited to identify additional issues & training for inclusion within the work plan and to note the update on Member training attached at Appendix 3.

In response to a suggestion by the Pensions Auditor to have training on governance strength, it was noted that this had already been covered in recent training sessions.

RESOLVED

To note the work plan and Committee members to, separately, advise the Pensions Manager of training needs.

175. RISK REGISTER REVIEW/UPDATE

The Committee considered an update on the Fund’s risk register and were given the opportunity to further review the risk score allocation.

The Committee noted that there were no new issues since the previous report. The only risk was the growing number of employers in the fund which now stood at 71.

RESOLVED

1. To note the risk register.

2. To note the area of focus for this review at the meeting is ‘Funding and Liability’ risks.

176. QUARTERLY PENSION FUND PERFORMANCE & INVESTMENT UPDATE

The Committee and Board noted the quarterly Pension Fund update report, as introduced by Thomas Skeen , Head of Pensions. It was noted that at the most recent valuation, the fund had a funding position of 79% - meaning the fund’s investment assets were sufficient to pay 79% of the pension benefits accrued at that date.

The Pensions Manager continued to refer to paragraphs 11.1 to 11.3 which outlined the improvement to an 88.2% funding level for the Pension Fund and the increase being mainly attributable to investment returns. This position was improved slightly from 30 September 2017 at 86.5%to a net deficit of £277m, which has decreased to £186m as at 31 December 2017 when the indicative funding level was 88.2%.

Good decision making in relation to investments was further cemented with the Council’s current investment with CQS now coming under the CIV’s oversight. This meant that the Council immediately starts to benefit from the various efficiencies associated with having funds which are invested via the CIV pool. This was similar to Haringey’s investments with LGIM which are also under the CIV’s oversight

In relation to a query about paragraphs 8.7 to 8.8, noted that this outlined that Japan contained a better market to invest in due to deflation, compared to the UK . It was also noted that gilts were calculated according to RPI.

RESOLVED

To note the information provided in respect of the activity in the three months to 31st December 2017 .

177. GOVERNANCE REVIEW

The Committee noted that there was no movement in the Key performance indicators relating to compliance with Scheme Advisory Board.

The London CIV consultation was circulated in February 2018 and the response provided by the council was included in exempt item. This had been accompanied by a strongly worded letter from the Council which highlighted that the proposals were incompatible with the Council’s ESG funding activities and blended mandates being taken forward.

The CIV business plan proposals had generally been viewed negatively by local authorities and the CIV were now redrafting proposals, set out in page 201 to 205 of the agenda pack.

Noted that the Council would be responding to the new consultation before the local elections.

RESOLVED

To note progress since the last report to the Committee and Board on performance against SAB's key indicators.

To note the London CIV consultation which was circulated in February 2018.

178. INVESTMENT CONSULTANT PROCUREMENT

[Mercer representatives left the meeting at this point]

The Committee were reminded that the current contract for investment consultancy services with Mercer expires on 31 March 2018. This contract had been extended at the Pensions Committee and Board meeting of 18 January 2018, in order to bridge the period to the end of the financial year. At this Committee meeting, delegated authority was granted to the CFO to enter into a new two year contract for investment consultancy services (with possible extension for one further year), following a procurement exercise carried out by officers with the involvement of the Independent Advisor to the Fund. The contract will run from 1 April 2018 to 31 March 2020, and will provide for an option to extend the contract for a further year to 31 March 2021.

The attached report to provided members of the Pensions Committee and Board with details of the procurement exercise undertaken.

Following consideration of exempt information at item 18 , there were no questions or queries from members of the committee and Board relating to the procurement exercise.

RESOLVED

That the Pensions Committee and Board note the contents of this report, and note that Mercer Ltd will be re-appointed as the fund's Investment Consultant from 1 April 2018, following the competitive procurement exercise carried out by officers.

Reason for Decision

N/A this is a noting item.

Other options considered

The fund must appoint an investment consultant to ensure it is able to access proper investment advice in order to fulfil its duty as Administering Authority for Haringey LGPS Fund. Therefore, not appointing an investment consultant would be an inappropriate course of action.

179. NEW ITEMS OF URGENT BUSINESS

None.

180. EQUITY STRATEGY REVIEW AND TACTICAL REBALANCING

181. GOVERNANCE REVIEW

As per item 177.

182. INVESTMENT CONSULTANT PROCUREMENT

183. NEW ITEMS OF EXEMPT URGENT BUSINESS

None

CHAIR: Councillor Clare Bull

Signed by Chair ………………………………..

Date …………………………………