MINUTES OF THE MEETING OF THE PENSIONS COMMITTEE AND BOARD HELD ON THURSDAY, 13TH SEPTEMBER, 2018, 7.00 - 8.45 pm

PRESENT:

Councillors: Matt White (Chair), John Bevan (Vice-Chair), Kaushika Amin, Paul Dennison, Viv Ross, Ishmael Owarish and Keith Brown

200. 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.

201. URGENT BUSINESS

Prior to the start of the meeting, the Committee were informed that the group Wood Green Friends of the Earth sought to address them with regard to divestment. As the formal procedure rules had not been followed, the Chair sought the Committee's permission as to whether to allow the leader of the group to make representations on behalf of the group to the Committee. The Committee unanimously agreed to allow the group to address them.

Quentin Given, on behalf of Wood Green Friends of the Earth, spoke to the Committee. It was raised, that:

- The number of natural disasters were increasing and this was because of the continual usage of fossil fuel. Governments were not giving the issue the urgency nor the action it was due and the group wanted to see Haringey Council's Pension Committee and Board make a commitment to complete divestment from fossil fuel. It was noted that other Councils had made similar commitments and were moving towards alternative investments which the group claimed were performing far better;
- The group wanted the Committee to go beyond its 5% commitment to investing in renewable energy and asked it to timetable a report for the next meeting setting out the steps moving towards divestment in fossil fuel; and
- The group were mindful of the reality of the time needed to create reports and to make decisions on such issues but asked the Committee to make a decision as soon as it was able to, with regard to the issues raised above.

The Chair thanked Quentin Given for his speech and reassured the group that the Committee shared their concern on the impacts of fossil fuel. The Chair noted that it was his intention to liaise with other Pension Chairs on the issue of a unified and collective commitment to future divestment.

On behalf of Haringey Council, Thomas Skeen, Head of Pensions, addressed the Committee and Board on this topic and noted this the issue of the Fund's Equity Strategy had only recently been addressed at a previous meeting in March 2018 and there were good reasons why the changes made at this time were done. It is not good practice to make regular changes to the Fund's Equity Strategy within short time periods. This could potentially damage the fund's reputation, with participating employers questioning the decisions taken by the Committee, and might affect their contributions to the Fund. Further, the Committee had already invested £276m in a low carbon fund. With regard to when the issues raised by the group could next be timetabled, it was noted that due to time-consuming items on future agendas it was unlikely that this would happen before March 2019.

The Fund's Investment Consultant, Steve Turner, of Mercer, also addressed the Committee. The approach that Haringey Council's Pension Committee had taken over the past 4 years had been proactive in committing to a renewable energy allocation of 5%, when other Local Government Pension Schemes (LGPS) had yet to make such commitments. The Committee had to be mindful of attaining the best returns possible, and of liquidity. There was limited scope to increase the allocation to renewable energy without increasing the overall illiquidity of the fund, and it would not be appropriate to have an allocation at a level above 5%. It was important that the Committee had a broad and diversified portfolio to balance the exposure to risk.

Following discussion amongst the Committee, it was noted that:

- The above-mentioned report detailing the Fund's Equity Strategy, which was discussed during the March 2018 Pensions Committee meeting, was publicly available for viewing, however, there was an exempt appendix with Mercer's advice to the Committee which was not publicly available.
- As the changes to the Fund Equity Strategy would only have taken effect from July 2018, it was too early to see what the impact of this was. It was prudent to review and make potential investment changes after a period of 3 years, as this was the amount of time usually needed to see how funds were performing.
- The Committee had previously considered making an allocation to a sustainable equity portfolio through the London CIV in March 2018. However, when further details and figures were released, the Committee did not think this would be in the Pension Fund's interest at that time.
- The London CIV was due to announce details of its infrastructure fund and it was important to see how much exposure this gave renewable energy.
- Regarding the difficulty of timetabling a report to the committee on the issue of divestment in fossil fuel, it was noted that the Committee had to prioritise pieces of work.
- With regard to setting a roadmap for the future on this issue, it was drawn to the Committee's attention that the Forward Plan was available for consideration at every meeting to discuss what should be on future agendas.

- Members of the Committee and Board were cautious that they did not wish to see this topic become a political debate. It would be prudent for members to increase their level of understanding on the issues affecting the Fund in general before making long-lasting commitments to the Fund's Equity Strategy.

It was agreed that, given the heightened level of interest amongst members of the public and the Committee, the issue of divestment from fossil fuel should be further discussed at the March 2019 meeting of the Pensions Committee. This would allow time for officers to prepare a considered report, and allow the Committee to address priority commitments at meetings before March 2019.

202. APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr Moyeed Khaled and Randy Plowright.

203. DECLARATIONS OF INTEREST AND CONFLICTS OF INTEREST

No declarations of interest declared.

204. RECORD OF TRAINING UNDERTAKEN SINCE LAST MEETING

Cllr White, Cllr Bevan, Cllr Dennison, Cllr Ross, Cllr Amin, Keith Brown and Ishmael Owarish attended a training session delivered by the Fund's Independent Advisor, John Raisin, and the fund's investment consultants, Steve Turner and Alex Goddard, of Mercer. 13/09/2018.

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

<u>Cllr Bevan</u>

- LBH Pensions training, 07/2018
- LBH Pension committee, 07/2018
- SPS Credit & Private Debt Investing for Pension Funds, 30/08/2018

<u>Clr White</u>

- London CIV meet the managers day 16th August
- Completed 2 modules online Public Sector Tool Kit.

205. MINUTES

In discussing the minutes of the meeting held on 23rd July 2018, it was noted that a decision on whether to continue being a subscriber to the Pensions and Lifetime Savings Association (PLSA) was not necessary before March 2019, as this had been paid for up until that date. The Head of Pensions informed the Committee that advice on whether there is merit in continuing this subscription would be circulated to members before the next meeting but that this did not have to be an agenda Item. Members were invited to consider the advice to be circulated before the next meeting and ask follow up questions of the Head of Pensions.

Resolved

To approve and sign the minutes of the meeting held on 23rd July 2018 as a correct record.

206. ADMINISTRATION REPORT

This report introduced by the Pensions Manager, Janet Richards, presented details of a potential new admission to the pension fund and gave a breakdown of the amount of visits made to the Haringey pension fund website.

The Committee was informed that The Grove School would be a new school, with effect from 1 September 2018. It was noted that 23 members of the support staff who are currently members of the Local Government Pension Scheme would transfer to The Grove School and remain in the Local Government Pension Scheme. The Committee was also informed about the performance of the Haringey pension website in the months of June 2018 and July 2018, with it being noted that the average amount of users per month to the pension website was 336, viewing on average 1309 pages.

Annual Benefit Statement

Although this was not on the Agenda, the Committee were informed by the Pensions Manager that the Annual Benefit Statements, which are an annual estimate of pension benefits earned by individuals, should have been sent out before 31st August 2018 (as per the relevant legislation), however, this was not done.

It was explained that Haringey Council used a third party to send out the Annual Benefit Statements. Whilst the Council had sent these to the third party on 24th August 2018 for printing, there appeared to have been an administration level error that caused there to be a delay before the printed statements were then sent to the postal room for posting. Consequently, the statements were not sent out in time. The Council's Pensions Team became aware of the error and queried this with the third party. Upon discovery of this delay, and having investigated the error, the Pensions Team sought advice from the Pensions Regulator as to whether the issue amounted to a breach. The advice from the Pensions Regulator was that the relevant Pensions Committee should be consulted with the facts of the incident and it was for them to decide whether the incident amounted to a material breach or not. It was noted that a finding of a material breach could, depending on its severity, result in the Council being fined.

Following discussion, there were conflicting views amongst members of the Committee. It was mindful that:

- This error was outside the control of the Council, and that there appeared to have been no negative impact on the recipients of the statements;

- The Council had been proactive in investigating the issue, which had only recently occurred; and
- The Committee were reassured that the incident would not happen again and that the Council were moving towards sending out the statements online in the future, which it was believed would mean the statements would not then have to be posted.

However, it was not content that:

- This information had been presented without being included in any report, which did not give members of the public an opportunity to review the issue; and
- No formal recommendation had been prepared for the Committee to consider.

Having heard the full details of the incident, the Committee felt that they were not in a position to decide whether to report the incident as a material breach and decided that it would be appropriate for the Council's lawyers to be consulted on the issue first. Their advice should then be presented to the Committee at a future meeting for consideration. The Committee suggested that the Council should follow the recommendation of its lawyers, and if they advised the Pensions Team to report the incident as a breach, to do so before the next Pensions Committee and Board meeting.

Resolved

1. To approve the admission of The Grove School as a new employer to the Pension Fund.

2. To note that this report gives a breakdown of the amount of visits made to the Haringey pension fund website.

207. INVESTMENTS REVIEW

The Head of Pensions, Thomas Skeen, introduced this report, which gave an overview of some of the Fund's private market asset class investments – property and private equity – and highlighted where the Fund is unable to achieve the targets set out in the Fund's Investment Strategy Statement through existing committed funds. The report went on to consider potential options to remedy this.

The Committee were directed to sections 4.2 and 4.3 of the report, and it was highlighted that when the Fund made new commitments to investment, the rate at which the Fund would grow in the future it could not be anticipated. Looking at the Aviva commitment, when 5% was allocated to this back in 2016, the Fund was worth approximately £1bn. The Fund had since grown significantly, and the Aviva commitment equalled roughly 3.5% at the time of this report. This divergence had occurred in a number of the Fund's private market asset classes. Due to the Fund's overall strategic allocation being down 3.5% due to the Fund's growth, two options were suggested to bring this back up to the agreed level. Firstly, the Committee and

Board could choose to commit to invest further funds with existing fund managers to bring these amounts in line with the strategic allocation, or secondly, it could explore the possibility of further diversifying its private market portfolio by including a new mandate within the portfolio.

Property was highlighted as being a useful asset class. The Fund's Investment Consultant, Mercer, had advised that residential property often displays a strong inflation linkage, and that this could sit well within the Fund's overall property allocation. The Committee were informed that the suggested approach would be to consult London CIV to initiate discussions.

With regard to Private Equity, it was noted that this was a growth asset class that allowed the Fund to gain exposure to companies that were not available to invest in via public stock exchanges. Recommendation 4 was brought to the Committee's attention for noting as the existing allocation to Private Equity was going to be underweight on its strategic allocation.

With regard to the options for the Fund, diversification would be positive in terms of mitigating risk exposure. However, increasing the number of fund managers would create a disproportionate drain on resources. It was noted that nine fund managers was close to the average of existing funds of a similar size to Haringey. It was considered appropriate to work with other London boroughs, and consult London CIV about further investing by that route rather than by acquiring a new fund manager. The Independent Advisor to the Committee concurred with this positon.

Following discussion amongst the committee, it was noted that:

- The Chair was due to discuss with fellow Pension Committee Chairs about further investing in residential property at a meeting in October 2018.
- Property (Private Rented Sector) was not social housing.
- Further investment in the London CIV did not entail adding a new fund manager, as the CIV is essentially an existing fund manager.
- Pantheon offered a range of fund options that could be committed to relatively quickly. This was in contrast to the fact that it could take some months to discuss further investment with the London CIV.
- Initiating discussions on residential property would be the first time the Fund had sought a bespoke arrangement with London CIV, the CIV being a relatively new organisation.
- As a client of the London CIV, it would be up to the Fund to indicate what kind of potential investment vehicle they wanted the London CIV to offer. The London CIV would then look at London as a whole and decide if it was worthwhile to do the research behind the proposed investments. Help with investing in residential property could be sought from the London CIV, but they might reply that there was insufficient demand across London for this. If so, it would be up to the committee to decide what the next step would be.

Resolved

1. That the Committee and Board consider and note the contents of this report, including the verbal information and advice given by the fund's investment consultant Mercer, in the meeting.

In relation to Property:

2. That the Committee and Board agrees to invite representatives of the London Collective Investment Vehicle (CIV) to the November Pensions Committee and Board meeting in order to discuss in further detail the potential for the CIV to include a residential property investment option.

3. That the Committee and Board notes and agrees to adopt two broad principles outlined throughout this report in relation to residential property investment, namely:

   - In the first instance, any new investment should be done via the London CIV
   - Any new investment should be done in a diversified manner: preferably using a pooled investment vehicle approach, with an experienced specialist fund manager, and with exposure to the UK property market as a whole.

In relation to Private Equity:

4. That the Committee and Board note that the existing allocation is underweight and that the S151 Officer take action to correct this as detailed within this report.

208. FORWARD PLAN

The Head of Pensions introduced this report for noting, which identified topics that would come to the attention of the Committee in the next twelve months, and sought Members' input into future agendas. Suggestions on future training were also sought from Members.

The Committee's attention was drawn to Appendix 1, which outlined the items on the agenda of future meetings, Appendix 2, which detailed training events Members may wish to attend, and Appendix 3, which detailed the Public Sector Toolkit and the Members that had completed this.

Following discussion, the Committee noted reports in the media that individuals had been choosing to cash in on their pensions. The Committee queried whether the Council kept a record of which of its members had cashed in on their pensions and what efforts were being made to advise them that this might not be in their best interests in the long term. In response, it was acknowledged that individuals had a legal right to cash in on their pension if they wanted to, and that the only obligation of the Council was to ensure that any individuals who did so were appropriately financially advised before so. It was further noted by the Fund's Investment Consultant that this trend was occurring predominantly in the private sector, and that it was not currently an issue that the Local Government Pension Scheme was witnessing.

Resolved

The Committee noted the report and the Forward Plan.

209. RISK REGISTER

The Head of Pensions introduced this report for noting, which gave an update on the Fund's risk register and provided an opportunity for the Committee to further review the risk score allocation. The Committee were invited to note the risk register and that the area this review at the meeting is 'Administration' and 'Communication' risks.

The Committee's attention was drawn to risk number 50, "*Member's don't make an informed decision when exercising their pension options whilst employer's cannot make informed decisions when exercising their discretions leading to possible complaints against the Fund",* which had its overall risk rating increased. Although there was a communications strategy in place that provided explanatory notes and guidance to members, the number of smaller employers in the fund (such as catering and cleaning providers in schools) increased this risk of more likely occurring.

In response to the Committee, it was noted that there was a general lack of understanding with regard to pension entitlements by both employees and employers. The Council was looking to change this through their Communication Strategy.

For clarity, it was noted that the columns headed '*Probability'* on pages 39 - 42 in Appendix 1 to Agenda Item 10, should instead read '*Overall Risk Rating'*.

Resolved

1. That the Committee note the risk register.

2. That the Committee note that the area of focus for this review at the meeting is 'Administration' and 'Communication' risks.

210. QUARTERLY UPDATE REPORT

The Head of Pensions introduced this report on the quarterly performance of the Pension Fund for noting. The Local Government Pension Scheme Regulations require the Committee to review investment performance, as detailed in sections 11 and 12 of the report. The Committee's attention was drawn to Appendix 1, '*Market Background April to June 2018'*, which highlighted the advances made by Equity markets during this period.

The Committee was informed that the funding level of 79.1% as at its most recent valuation on 31 March 2016 (a net deficit of £277m) was calculated as being an indicative 89% as at 30 June 2018, corresponding to a net deficit of £175m. *(It was noted that there was a typographical error in 11.3 of the report, and that it should have read "...£175m as at 30 June 2018" and not 31 March 2018)*. This substantial decrease in the net deficit was a positive for the Fund's position.

In looking at the portfolio allocations against benchmarks set, it was noted that the property, renewable energy infrastructure and multi asset absolute return investments performed above benchmark during this quarter. The equity allocation exceeded target by 1.14%, which was due to the Fund's decision in March 2018 to allocate surplus funds being held for new investments in property and renewable energy to the fund's multi asset absolute return and multi asses credit mandates.

Following discussion amongst the Committee, it was noted that:

- Regarding the Copenhagen Infrastructure Partners investment, only recently had a small amount of the total allocated £35m been invested. It was expected that the investment would rise to the full £35m over the course of the next 2-3 years.
- Existing contributions could not be reassessed until the next valuation of the Fund. It was possible for a formal valuation to be done earlier, but this was a large piece of work that would be costly and took a significant period of time to complete.

Resolved

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

211. NEW ITEMS OF URGENT BUSINESS

None.

212. EXCLUSION OF THE PRESS AND PUBLIC

Resolved

That the press and public be excluded from the remainder of the meeting as the items below contain exempt information, as defined under paragraph, 3 and 5, Part 1, schedule 12A of the Local Government Act 1972.

213. QUARTERLY UPDATE REPORT

Considered exempt information pertaining to the Quarterly Update Report.

CHAIR: Councillor Matt White

Signed by Chair ………………………………..

Date …………………………………