

MINUTES OF THE MEETING OF THE PENSIONS COMMITTEE AND BOARD HELD ON THURSDAY, 14TH MARCH, 2019, 19:00 – 21:00

PRESENT: Cllr White, Cllr Dennison, Cllr Ross, Keith Brown, Ishmael Owarish, and Randy Plowright.

247. 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.

248. APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr Bevan and Cllr Moyeed.

249. URGENT BUSINESS

Deputation

A deputation had been received from Tottenham and Wood Green Friends of the Earth which sought the Pensions Committee and Board (PCB) to make a commitment to divest from fossil fuels.

The deputation thanked the PCB for the opportunity to speak. The deputation appreciated that the PCB's duty was to its members but argued one of its top considerations must be to do all it could to help preserve the world for future generations.

In addition, the deputation raised the following:

- Divestment was an effective means to combat climate change.
- Welcomed the PCB's investment in the low carbon index and renewables.
- Hoped the PCB would commit to a date by which it would move the remaining shareholdings into low carbon funds and upping the renewables investment.
- Noted the increasing number of natural disasters, such as the 2018 California wildfires, and attributed this to climate change.
- There was to be a series of climate change protests held around the world on 15th March 2019. Schoolchildren would be attending the Full Council meeting on 18th March to highlight their concern for the future if climate change was not addressed.

- A report by the UN Intergovernmental Panel on Climate Change had stated there was only a 12 year period to act to reduce the risk of an increased number of natural disasters.
- If the PCB were to commit to divestment, then this would help prevent global catastrophes and encourage other Local Authority pension funds to divest.

The Chair thanked Tottenham and Wood Green Friends of the Earth for their deputation.

Petition

In response to the petition received from Tottenham and Wood Green Friends of the Earth at its 21st January 2019, the Chair read out the formal response of the PCB, which was as follows:

“We share the concerns of Friends of the Earth regarding the damaging effects of fossil fuels on the environment, and thank them for their engagement with the Fund. Haringey has previously sought to seek to reduce fossil fuel exposure via using low carbon options for equity investments, where this is possible and where this is consistent with our overriding fiduciary duty. The Fund will look to explore whether additional low carbon investments are feasible over the next 12 months, to reduce our exposure to fossil fuels further.

The fund’s use of low carbon funds is not the only strand to the fund’s ESG (environmental social and corporate governance) policy however. We have committed to invest c. £70m in renewable energy infrastructure, which the fund believes will deliver the required returns for the fund, but will also make a meaningful and impactful contribution to positive environmental practices. The level of the fund’s investments in renewable energy also remain under regular review. The fund takes its stewardship duties extremely seriously, and is a tier 1 signatory to the Financial Reporting Council UK Stewardship Code.

The fund firmly believes that engagement with companies who display undesirable characteristics or behaviours is the best way to effect change, and is therefore a member of the Local Authority Pension Fund Forum, (LAPFF), who carry out engagement activities on behalf of local government pension funds. The LAPFF is one of the largest collaborative engagement groups, with 79 member funds, who hold around £230bn in funds under management. They engage regularly with a variety of companies, including work to encourage companies to align their business models with a 2°C scenario and for an orderly transition to a low-carbon economy. The LAPFF believes in engagement activities as opposed to divestment, as divestment could lead to investors having.”

250. DECLARATIONS OF INTEREST AND CONFLICTS OF INTEREST

No declarations of interest were made.

251. RECORD OF TRAINING UNDERTAKEN SINCE LAST MEETING

Cllr White, Cllr Dennison, Cllr Ross, Keith Brown, Ishmael Owarish, and Randy Plowright attended a training session delivered by Blackrock on renewable energy investments – 14/03/2019.

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

Cllr Ross - _Attended SSAS & SIPP Adviser Seminar on Self Invested Pensions at Barnet Waddingham - 05/03

Cllr White -

252. MINUTES

The fund's independent advisor, John Raisin, suggested minor corrections to the minutes for clarity.

Resolved

That the minutes of the meeting held on the 21st January 2019 be approved as a correct record of the meeting.

253. EMERGING MARKET EQUITY REVIEW

This report, introduced by Thomas Skeen, Head of Pensions, invited the PCB to review the fund's low carbon equity holdings, with a view to considering the potential to reduce the fund's carbon exposure.

The following was highlighted to the PCB:

- The Fund had always given serious consideration to Environmental Social and Corporate Governance (ESG) factors.
- A report would be brought before the July 2019 meeting to reflect the outcome of the PCB's discussions and a strategy change could be agreed at that meeting.
- There had been regular equity reviews in recent years and approximately half of the fund's developed market equity is currently invested in a low carbon fund.
- This report focussed on the Fund's overall allocation of 6.66% to emerging market equity.
- The exempt appendix produced by Mercer, outlined three potential options which the Fund could explore utilising in the future to reduce carbon exposure within its emerging markets portfolio.

Following questions by the PCB, it was noted:

- The PCB had made a decision in 2017 to have a 50% low carbon allocation in the developed market equity (everything that was not in an emerging market).
- The emerging market equity was index tracked but not within a low carbon fund.
- The Fund's Investment Consultant, Mercer, informed the PCB that emerging markets made up 15% of the Fund's equity allocation, which contributed to

40% of its overall carbon exposure. Mercer had reviewed whether it was viable for the Fund to retain the same level of emerging market exposure but through a low carbon approach.

- The PCB was not able to make a decision at the meeting regarding moving assets due to the ongoing negotiations with the fund manager, Legal and General. It was not possible to change the Fund's strategy when it was not clear what the available options were or the costs involved. The PCB were invited to consider making a decision in principle and formalise that decision in July 2019, pending all information being disclosed.
- It was not possible for the Fund to have zero carbon exposure. The PCB could seek to divest from fossil fuel companies but it would still have investments with other organisations, such as supermarkets, which, in the daily course of their operations, would produce carbon emissions. Low carbon indexation reduced the Fund's exposure to the largest carbon emitters and, consequently, increased exposure to lower carbon emitters. The low carbon index had been effective at reducing overall carbon footprints.

(The PCB next considered the exempt appendix to this report in private, as per item 262. Members of the public were cleared from the meeting.

Following the conclusion of discussions in private, members of the public were invited back into the meeting room and the following was announced.)

The Chair thanked the Tottenham and Wood Green Friends of the Earth for waiting. The Chair then informed that the PCB had considered the exempt report and that, following discussion, it was *minded* to move existing funds from emerging markets into a low carbon version of the fund that would be set up for the London Borough of Haringey's Pension Fund. However, the PCB was not in a position to formally make that decision as all of the costs and details of the deal had yet to be negotiated. Once all of the details were available for consideration, the PCB would be able to formally declare its decision at its July 2019 meeting.

Resolved

1. That the Committee consider the report, and information outlined by Mercer in Confidential Appendix 1.
2. That the Committee agrees to commission a further report on this topic for the next meeting of the Pensions Committee and Board, reflecting the views expressed by members at this meeting.

254. PENSION FUND AUDIT PLAN - YEAR TO 31 MARCH 2019

This report, introduced by the Head of Pensions, presented the audit plan prepared by the external auditors, BDO, for the audit of the Pension Fund accounts 2018/19 for the Committee's consideration. It was noted the BDO fee of £16,170 for the 2018/19 audit was a reduction on the fee of £21,000, which had been paid in the prior three years.

The external auditor, BDO, presented the appendix it had prepared for the PCB. The following was highlighted:

- Public Sector Audit Appointments set the £16,170 fee.
- The Pension Fund accounts had clean audits in recent years.
- Figures for mortality on female actives and pensioners showed they did not live as long in Haringey as the benchmark average. This was the only assumption outside of national expectations.
- There was a risk the valuation was not based on appropriate membership data where there were significant changes, used inappropriate assumptions to value the liability or failed to include the potential additional liabilities arising from the GMP and McCloud rulings.
- IFRS 9 financial instruments had been implemented for 2018/19. This required all relevant financial instrument assets (principally investments and receivables) and liabilities (principally payables) to be categorised under new criteria based on their business model and contractual cash flows that would determine their classification and basis of valuation.
- BDO would report to the PCB at its July 2019 meeting with the results of the audit.

Resolved

That the 2018/19 Audit Plan prepared by BDO be agreed.

255. 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 396 users per month, who each viewed approximately four pages. A year on year analysis was included which showed that the website had received more users in December 2018 and January 2019 than it had in the previous year.

There was a new admission body to the Fund following Mulberry Primary School having tendered its premises and cleaning service and the successful bidder being Brayborne Facilities Services. The PCB was asked to approve an admission agreement being entered into for Brayborne Facilities Services Limited.

The Pensions Team had reviewed the Internal Disputes Resolution Procedure (IDRP) process. The new Adjudicator, who would deal with Stage One appeals, would change from the former Adjudicator, the Head of Human Resources Operations to the Head of Pensions, Treasury and Chief Accountant. The Assistant Director for Corporate Governance would continue to handle Stage Two appeals.

Following questions by the PCB, it was noted:

- The Pensions team had previously operated within the Human Resources division of the Council but, following a structural change, moved to the finance division. The change to the IDRP reflected that structural change as the Head of Human Resources Operations no longer managed the Pensions team.
- The PCB queried the change to Brayborne Facilities Services when the staff would be the same as before.
- The Pensions team was aware of the CIPFA changes to the annual report in respect of administration disclosures.

Resolved

That members:

1. note that the report gives a breakdown of the amount of visits made to the Haringey pension fund website.
2. note and approve the admission of Brayborne Facilities Services Limited as a new employer to the Pension Fund, subject to their securing a bond or a guarantee from a third party in line with the LGPS regulations, to indemnify the pension fund against any future potential liabilities that could arise or paying an increase contribution rate in lieu of a bond.
3. note and approve the updated pension fund's Internal Dispute Resolution Procedure notifies that the new stage one adjudicator for Haringey Council's appeals is the Head of Pensions, Treasury and Chief Accountant. The revised procedure is attached.

256. LONG LEASE PROPERTY INVESTMENTS

This report, introduced by the Head of Pensions, provided information regarding the Fund's existing commitment to long lease property investments, and the London Collective Investment Vehicle's (CIV) inflation plus subfund.

The PCB noted the fund had a 12.5% allocation to property, with two fund managers, one of which being Aviva. Recently, the London CIV had completed a procurement process to appoint a fund manager for an inflation plus subfund and Aviva were the proposed manager for this mandate. Mercer had been consulted on whether the Fund should take any action at this time, cognisant of the pooling agenda, and with the aim of not holding assets outside the pool where it was possible instead to use CIV options, unless that were clear benefits for doing so.

Given the advice received from Mercer, the PCB was not being advised to take any action at this time. The Fund would invest the £50m in the Aviva Lime fund in late 2019, as previously agreed. Officers would report back to the PCB with an update on this matter over the course of 2019/20. The CIV had been fully updated on the matter.

The PCB considered the exempt appendix in private.

Following questions by the PCB, the following was noted:

- Regarding the three year delay in the money that had been set aside for the investment in long lease property with Aviva being invested, it was noted the PCB were unlucky in the timing of when it was able to get its documentation in place with Aviva, which caused the delay.
- Regarding the option to invest in a residential property fund with the CIV, the PCB was informed that such a fund would need to be operational before the PCB could consider making a decision about whether to invest in it or not.
- Any investment in private market asset classes would take a number of years to become invested.

Resolved

That the Committee consider the report, and information and advice outlined by Mercer, the fund's Investment Consultant in Confidential Appendix 1.

257. CONFLICTS OF INTEREST POLICY

This report, introduced by the Head of Pensions, highlighted the proposed changes to the Conflict of Interest Policy. There were minor changes to the document to correct references to co-optees and the name of the committee to include 'and Board'. The PCB was informed there were no material changes.

Resolved

That the Committee adopt the Conflicts of Interest Policy at Appendix 1.

258. FORWARD PLAN

This report, introduced by the Head of Pensions, on the Forward Plan for noting, 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 noted there would be a follow on report in July 2019 to item 253 - Emerging Market Equity Review.

Members were requested to inform the Head of Pensions once they had completed the Public Sector Toolkit (Online) and the Training Needs Analysis at Appendix 3.

Resolved

That the Committee is invited to identify additional issues & training for inclusion within the work plan and to note the update on member training attached at Appendix 3.

259. RISK REGISTER - REVIEW/UPDATE

The PCB considered this report, introduced by the Head of Pensions, for noting on the Risk Register. It was advised this was a standard item on the agenda and that the PCB had a legal duty to review internal controls and the management of risks. The PCB were informed of the changes to the risk register, as shown in Appendix 1.

It was highlighted that if members did not complete the training discussed in item 258, then risk number 3, that '*Members have insufficient knowledge of regulations, guidance and best practice to make good decisions*', would be increased.

Regarding the new red rated risk, '*that LGPS legislation regarding the benefits framework for the scheme changes significantly (and possibly at short notice) leading to increased fund liabilities*', it was noted that it was difficult to predict what the potential outcome would be of ongoing judicial reviews into pension scheme

frameworks. A negative outcome could see liabilities increase, which might have to be paid for by an increase to employer's set contribution rates.

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 'Governance' and 'Legal' risks.

260. PENSION FUND QUARTERLY UPDATE

This report, introduced by the Head of Pensions, provided an update in respect of the three months to 31 December 2018 on the following: Funding Level Update; Investment asset allocation; and Investment performance.

The PCB was informed the Fund's Actuary, Hymans Robertson LLP, had calculated an indicative funding position update for 31 December 2018, which showed an improvement to an 82.6% funding level. That position was a decline from 30 September 2018, which showed 90.4%. This improvement was largely attributed to equity market performance.

The Fund's Independent Advisor, John Raisin, introduced his report prepared for the PCB at Appendix 1. The following was highlighted:

- Q4 had been a poor quarter for the US economy, which saw the US S&P 500 Index fall from 2,914 at the end of September to 2,507 at the end of December.
- January to March 2019 had seen improvements in areas that performed poorly in October to December 2018, which showed a degree of volatility in the markets.

Following discussion, it was noted:

- Regarding equity protection, the Chair had spoken to 10 fellow Pension Committee chairs and the majority had not considered it at their respective committees. For those that had, some rejected it whilst others opted for it. However, it had been suggested the optimal time to consider equity protection had since passed.
- The PCB was informed it could consider equity protection at a future date if it was sensible to do so.
- The valuation cycle was going from a 3 year cycle to a one off 5 year cycle (possibly with an interim valuation part way through), and then would align with other public sector funds on a 4 year cycle.

Resolved

That the information provided in respect of the activity in the three months to 31 December 2018 is noted.

261. 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).

262. EMERGING MARKET EQUITY REVIEW

As per the exempt minutes.

263. LONG LEASE PROPERTY INVESTMENTS

As per the exempt minutes.

264. PENSION FUND QUARTERLY UPDATE

As per the exempt minutes.

265. EXEMPT MINUTES

Resolved

That the exempt minutes of the meeting held on 21st January 2019 be approved as a correct record of the meeting.

266. NEW ITEMS OF URGENT BUSINESS

None.

CHAIR:

Signed by Chair

Date