MINUTES OF THE PENSIONS COMMITTEE AND BOARD MEETING HELD ON MONDAY, 23RD NOVEMBER, 2020, 7.00 - 8.55 PM

PRESENT: Councillor John Bevan (Chair), Councillor Julie Davies (Vice-Chair), Councillor James Chiriyankandath, Councillor Paul Dennison, Councillor Viv Ross, Councillor Noah Tucker, Ishmael Owarish, Keith Brown, and Randy Plowright.

In attendance: Leigh Lloyd-Thomas (BDO), Matthew Vosper (BDO), Alex Goddard (Mercer), and Steve Turner (Mercer).

1. FILMING AT MEETINGS

The Chair referred to the notice of filming at meetings and this information was noted.

2. APOLOGIES

Apologies for absence were received from John Raisin (Independent Advisor); it was noted that the meeting date had been rearranged and that the new date conflicted with another local authority Pensions Committee meeting.

3. URGENT BUSINESS

There was no urgent business.

4. DECLARATIONS OF INTEREST AND CONFLICTS OF INTEREST

There were no declarations of interest.

5. DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS

There were no deputations, petitions, presentations, or questions.

6. RECORD OF TRAINING UNDERTAKEN SINCE LAST MEETING

It was noted that all members of the Pensions Committee and Board had attended a training session on 23 November 2020 entitled: Investing in Multi Factor Climate Transition Strategy.

It was also noted that the Chair had undertaken the following training: London CIV Low Carbon briefing, North London Pension Funds Chairs' Forum, LGPS Live: Local

Government Pension Scheme briefing, CIV Budget briefing, and Pension Trustees Circle Virtual Forum Update and Group Discussion.

7. MINUTES

RESOLVED

That the minutes of the Pensions Committee and Board meeting held on 20 October 2020 be confirmed and signed as a correct record.

8. PENSION ADMINISTRATION REPORT

The Pensions Manager introduced the report which provided an update on pension administration matters. It was noted that Lunchtime UK was no longer leaving the Pension Fund. It was also explained that KM Cleaning had left the scheme as an employer as their contract for Local Government Pension Scheme schools had ceased on 31 August 2020.

The Chair noted that one school had taken back cleaning staff as their employees; it was commented that it was unusual for a school to provide its own cleaners and it was enquired how this affected the pensions of these staff. The Pensions Manager stated that these staff would remain in the pension scheme and it would be as if they had never left. It was explained that these staff had been employed by the school in the past, then transferred (TUPEd) to KM Cleaning, and then returned to being employees of the school and had therefore always remained in the scheme.

Cllr Denniston noted that less information was provided to pension scheme members in hard copy and therefore the number of visits to the website was more important. It was highlighted that the number of visits to the website was generally reducing and enquired whether there was a strategy to increase these numbers. The Pensions Manager explained that, when letters were sent to pension scheme members, information about the website was always provided and members could access the website if they wished. It was clarified that there was no comprehensive record of all pension scheme members' email addresses; these were only recorded if they were provided by pension scheme members.

RESOLVED

1. To note the information in the report which gave a breakdown of the amount of visits made to the Haringey pension fund website and an update regarding pension administration matters.

2. To note that K M Cleaning had left as an employer in the scheme.

9. PENSION FUND ANNUAL REPORT AND STATEMENT OF ACCOUNTS 2019/20

The Head of Pensions and Treasury introduced the report which presented the Pension Fund Annual Report and audited Accounts for 2019/20 for the Pension Committee and Board's approval. The draft annual audit report from the Fund's external auditor, BDO, was also presented. It was explained that the annual report and accounts would normally be considered in July but that the deadline had been extended due to the Covid-19 pandemic. The Pensions Committee and Board was asked to note the interim findings of the annual report and accounts. It was highlighted that the audit was very near completion and that the conclusion would be finalised in the next few days; it was noted that there was no audit opinion yet but the BDO Partner working on the audit would expand on this later in the meeting. It was added that no major changes were anticipated but that, if there were any, they would be reported back to the Pensions Committee and Board.

As the audit had not concluded, the Pensions Committee and Board was asked to delegate authority to Director of Finance, after consultation with the Chair, to make any necessary final changes and approve the final accounts, subject to reporting back any major changes. Additionally, it was requested to authorise the Chair of the Pensions Committee and Board and Director of Finance to sign the letter of representation to the auditor to acknowledge the Council's responsibility for the fair presentation of the information in the financial statement and annual report.

The Head of Pensions and Treasury provided a summary of the annual report that was included in the agenda pack. It was noted that there had been a modest growth of 51 members in 2019-2020, some movement of members to retired and deferred membership, and a slight reduction in active membership. It was explained that there had been a slight reduction in the Pension Fund's value as a result of the Covid-19 pandemic and that, at 31 March 2020, there had been a negative return of 3.7% which equated to a loss in value of approximately £56 million. It was noted that this did not compare well against the benchmark target of -1.2% but it was highlighted that the Pension Fund had outperformed the average local authority fund performance which was -4.1%. It was added that most of the losses as a result of the Covid-19 pandemic had now been recovered.

A member of the Pension Committee and Board noted that the annual report showed that, compared to 2010-2011, there were 30% more pensioners drawing their payment and 8% fewer paying members; it was enquired whether this was a concerning trend and whether there should be a strategy for the Council to transition more staff from temporary to permanent posts. The Head of Pensions and Treasury noted that the Council was not the only employer in the Pension Fund and so the actions of a number of employers had impacts. It was explained that Pension Funds were designed to operate so that all members could retire and draw their payments. It was acknowledged that people were living longer and that it would be important to ensure that the Pension Fund's assets matched its liabilities; it was noted that, when the liabilities were last valued, there were sufficient assets.

A member noted that Millbrook Park Primary School and Braybourne Mulberry School were employers in the Pension Fund but were not located in Haringey. The Pensions Manager explained that Millbrook Park Primary School was not located in Haringey but was part of a Multi-Academy Trust (MAT) and could join the Pension Fund. In relation to Braybourne Mulberry School, it was noted that Braybourne provided the catering for Mulberry School. It was also explained that there may be different arrangements in different Pension Funds. It was clarified that the actual pension benefit rules were the same across the Local Government Pension Scheme (LGPS) but that, in relation to redundancy packages, the statutory payment was universal and the calculation of the enhanced payment was agreed locally.

It was noted that all of the Haringey Pension Fund managers except one had signed up to the United Nations (UN) Principles for Responsible Investment initiative; it was enquired whether this fund manager could be required to sign up. The Assistant Director of Finance noted that this fund manager was one of the renewable energy managers and it was believed that they had not signed up due to their size and the fact that they were not based in the UK. It was explained that the Pensions Committee and Board may need to exercise caution in imposing requirements as it may not be possible for all managers to comply.

A member of the Pensions Committee and Board believed that there were smaller sign up costs for smaller businesses and asked whether it would be possible to write to this manager and ask them to join the UN initiative. The Assistant Director of Finance understood that the sign up costs were quite costly but noted that it would be possible to write to the manager to obtain some feedback. It was agreed that the Pension Fund would contact the manager to see whether they wanted to be a signatory and to determine whether there were any barriers to joining the UN initiative. It was added that, in future, any renewable energy investments would be managed through the London Collective Investment Vehicle (CIV) and this issue would be considered when the London CIV appointed their manager.

A member noted that some Pension Funds invested in university halls of residents and that these were not being occupied during the Covid-19 pandemic; it was enquired whether this presented any investment risks for the Haringey Pension Fund. The Head of Pensions and Treasury explained that this would not present a risk as contracts for halls of residence had been signed for the year and the universities would be liable for any defaults. It was confirmed that the Pension Fund had not experienced any loss of income and, in terms of future years, it was noted that the sign up rate for the upcoming university year was similar to previous years.

It was clarified that i-connect was a system that connected payroll and pensions which provided both monthly and annual updates about individual contributions. It was explained that this system was already used by Haringey Council and was being rolled out to other employers in the Pension Fund.

The Chair enquired whether the Pension Fund regularly wrote to people about joining the scheme. The Pensions Manager explained that staff were automatically brought into the pension scheme when they joined relevant employment. It was noted that staff had a choice to opt out of the scheme but that this choice needed to be reaffirmed every three years.

It was noted that the report presented to the Pensions Committee and Board was not the finalised report and some members expressed concern that they would not be approving the final version. The Head of Pensions and Treasury explained that the report would be finalised in the next few days and that issues were more likely to be removed from the report rather than added; it was also confirmed that any major changes would be reported to the Pensions Committee and Board.

The Head of Pensions and Treasury explained that, in addition to the annual report, the statement of accounts was presented to the Pension Committee and Board. It was noted that contributions had gone up by approximately £4 million, mainly due to secondary payments, and benefit payments had decreased significantly, mainly due to the departure of College of Haringey, Enfield, and North East London (CoNEL) from the Pension Fund. It was added that most other numbers were comparable to the accounts from 2018-2019.

Leigh Lloyd-Thomas, BDO, noted that conducting the audit remotely had taken longer and that the government had extended the deadline for submitting the annual report and accounts. He provided an update on the auditor’s key findings. It was noted that the materiality, or the level over which differences needed to be reported, was 1% of the Pension Funds investment assets, or £13 million. It was stated that there were no errors in the accounts and it was considered that the funds were well managed.

It was explained that the audit risks were set out in the audit progress report. In relation to the management override of controls risk, it was reported that, once the final portion of testing which related to seven journals was completed, it should be possible to sign off the accounts. In relation to the pension liability risk, it was noted that there had been a marked reduction in liabilities this year due to pay and pension increase assumptions and the flattening out of life expectancy assumptions. Leigh Lloyd-Thomas, BDO, also noted that this was a triennial year where all membership data was refreshed; it was explained that this data would be used in the 31 March 2021 accounting valuation.

It was stated that the key legal cases at present were GMP (gender equality), McCloud (age discrimination), and Goodwin (spousal pensions). In relation to GMP, it was explained that the actuary had not included any GMP indexation in last year’s accounts but had applied full GMP indexation this year, assuming that the Council would take liability for this. It was noted that McCloud was also now included and the auditor was content that the liability included the correct amount. Leigh Lloyd-Thomas stated that, although the liability had reduced, it could be lower and this may be reflected by a further reduction at the next valuation of mortality. It was clarified that the actuaries national index was based on the 2018 data for mortalities but that the 2019 data suggested a further flattening of longevity.

It was noted that the auditor had also examined investment assets, particularly focusing on fund that were carrying harder to value assets, such as property, infrastructure, and private equity, to ensure that the valuations had factored in the impact of the Covid-19 pandemic. In relation to property, the auditor considered the impact of the valuation uncertainty warning issued by the manager and decided that it was not sufficiently significant to require specific reference in the audit report but had suggested that the uncertainties over fund pricing should be included in the valuation notes. In relation to private equity and infrastructure, it was considered that there were no major concerns and the auditor was content that the harder to value funds had factored in an appropriate reduction in valuation.

Leigh Lloyd-Thomas, BDO, noted that the testing of benefits payable and contributions in had now completed and no errors had been found. The letter of representation was included in the audit progress report and there was only one instance where the auditor had sought specific representations; it was explained that this asked the Pensions Committee and Board to confirm the pension actuarial assumptions around financial and mortality assumptions. It was added that this was recommended by the actuary and any opinions on the assumptions were sought before the deadline of 30 November 2020. It was noted that the audit fees were included in the report, with additional funds budgeted this year relating to the Covid and triennial valuations.

A member of the Pensions Committee and Board noted that some retail companies were not paying rent at present and it was enquired how this might affect the Pension Fund's portfolio. Leigh Lloyd-Thomas, BDO, explained that retail was a known issue, even prior to the Covid-19 pandemic. A number of retail rents had been reduced during the pandemic and it was unknown whether the rates would increase to their former amounts. It was noted that the Pension Fund did have some investments in UK retail and these would have to be monitored in the future.

RESOLVED

1. To note the findings of the external auditor in their report, attached as Annexe 1 to the report.

2. To note the content of the Pension Fund Annual Report and Fund Accounts for 2019/20.

3. To approve the Pension Fund Annual Report and Fund Accounts for 2019/20.

4. To delegate authority to the Director of Finance, after consultation with Chair of the Pensions Committee and Board, to make any necessary final changes to the published accounts and approve the Audited Statement of Accounts for 2019/20, subject to reporting back any significant changes made, to ensure that the accounts were signed off by the 30 November deadline.

5. To authorise the Chair of the Pensions Committee and Board and Director of Finance (S151 Officer) to sign the letter of representation to the Auditor to acknowledge the Council's responsibility for the fair presentation of the information in the financial statement and the Pension Fund Annual Report.

10. INVESTMENT MANAGEMENT CONSULTANCY SERVICES TENDER

The Head of Pensions and Treasury introduced the report which provided an update on the Pension Fund's investment management consultancy services tender. It was explained that the existing contract was due to end on 31 March 2021 and the report set out the proposals for the Fund to tender a new investment management consultancy service. It was also noted that the Pensions Committee and Board would be asked to approve the selection at its next meeting, following the tender process.

It was highlighted that there was an amendment to the recommendations as the proposed contract was now for a three year term with possible extension for one further year, rather than a two year term with possible extension for one further year.

It was noted that, under the procurement rules, only officers could be members of an interview panel. Cllr Ross stated that members of the Pensions Committee and Board had previously observed the interview process, without formal involvement as members of the interview panel, to fulfil their oversight role and enquired whether this would be possible for this contract. The Chair agreed that this would be beneficial. It was noted that the provisional interview date was 8 January 2021 and it was agreed that all Pensions Committee and Board members would be invited to observe the interview process.

The Pensions Committee and Board agreed to note the report and noted the amendment to the recommendations, namely that the proposal was for the Fund to tender for a new three year contract with possible extension for one further year, rather than for a two year contract with possible extension for one further year.

RESOLVED

1. To note the proposals for the Fund to tender for a new **three year** contract for investment management consultancy services, with possible extension for one further year; this would be similar to the contract that is about to lapse.

2. To note that this contract award will be made following a procurement exercise carried out by officers, using the National LGPS Framework; and

3. To note that the Pensions Committee and Board will be asked to approve the appointment of the successful bidder once the selection process is complete.

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

The Head of Pensions and Treasury introduced the report which provided an update on Local Authority Pension Fund Forum (LAPFF) voting activities. It was explained that, in this quarter, there had been three voting recommendations. The Pension Fund’s equity manager, Legal and General Investment Management (LGIM), had voted in line with all three LAPFF recommendations but, in all cases, the results of the votes had been contrary to the LAPFF recommendations.

RESOLVED

To note the report.

12. RISK REGISTER

The Head of Pensions and Treasury introduced the report which provided an update on the Fund’s risk register and an opportunity for the Pensions Committee and Board to further review the risk score allocation. It was stated that the Pensions Committee and Board may wish to review risk 22 which related to the potential liabilities due to the McCloud and Guaranteed Minimum Payment (GMP) rulings. It was explained that some assessment of the risks had indicated that the impact was estimated to be 0.3% of 1% of the fund at a value of approximately £4 million. It was noted that risk 22 was currently rated ‘very high’ (red) but suggested that it might be more appropriately rated ‘moderate’ (yellow). It was clarified that the risk ratings, from lowest to highest risk, were: low (green), moderate (yellow), high (amber), and very high (red).

Some members of the Pensions Committee and Board enquired whether it might be appropriate to increase the risk ratings of risk 23 (Brexit) and risk 58 (the London Collective Investment Vehicle’s (LCIV) investment strategy). The Head of Pensions and Treasury acknowledged that some Brexit changes would come into force from 1 January 2020 but that, in relation to the Pension Fund, there were limited actions that could be taken in advance; it was noted that the unknown nature of this issue was recognised. In relation to the LCIV, it was noted that the LCIV were engaging on investment issues and it was explained that this risk would be kept under review.

RESOLVED

1. To note the risk register.

2. **To reduce the risk rating of risk 22 from very high to moderate.**

3. To note that the area of focus for review at the meeting was Governance and Legal.

13. FORWARD PLAN

The Head of Pensions and Treasury introduced the report and explained that the two investment reports scheduled for the meeting in January 2021, Gilts Portfolio and Residential Property, may be considered at a later date depending on progress.

Some members noted that an issue had been raised at a previous meeting about the Pension Fund’s exposure to companies investing in illegal settlements in the West Bank, as defined by the United Nations (UN). It was enquired what the next steps would be to disinvest from these companies.

The Chair explained that, since the issue had been raised at the last meeting, he had liaised with other North London Pension Committee Chairs who met on a regular basis. It was noted that, as the holding of shares linked to illegal settlements was so small and the cost of changing would be about £10 million, the Chairs had asked the Local Authority Pension Fund Forum (LAPFF) to investigate and provide a report on their findings.

The Head of Pensions and Treasury explained that the Pension Fund did not invest in these companies directly. It was noted that all equities investments were done on a passive basis; this meant that the fund manager was instructed to select investments that replicated the market and this was how the Pension Fund had come to invest in these companies. As such, it was not possible to force the fund manager to disinvest from these companies. However, it was noted that the Pension Fund, like a number of other funds, had appointed and was a member LAPFF who advocated and engaged with companies directly when there were concerns about their approach to Environmental, Social, and Governance (ESG) issues. It was added that the Pension Fund had indirectly invested in 12 companies that were identified as investing in illegal settlements. It was noted that this related to approximately 0.21% of 1% of the Pension Fund's investments, which was approximately £3 million.

Members noted that this was a small investment but that a number of Pension Funds would be in a similar position and the overall amount invested could be more substantial. It was also noted that there were additional companies which were not on the UN list but which had been identified by campaign groups. It was acknowledged that the approach of applying pressure through Pension Committee Chairs was sensible as a starting point. It was agreed that an update on this issue would be provided within the quarterly report at the next Pensions Committee and Board meeting and that the LAPFF report would be included as an appendix.

The Head of Pensions and Treasury noted that The Pensions Regulator (TPR) required Pensions Committee and Board members to receive regular training. Members were asked to complete or re-complete TPR's training needs analysis so that any relevant training could be organised. Members were also encouraged to complete TPR's online learning programme, the public service toolkit. It was noted that the relevant links would be circulated to members.

RESOLVED

1. To note the work plan, the training programme, and the update on member training, attached as Appendices 1-3 of the report.

2. To complete The Pension Regulator's public service toolkit and training needs analysis.

14. IMPLEMENTATION OF THE RAFI MULTI FACTOR CLIMATE TRANSITION STRATEGY

The Head of Pensions and Treasury introduced the report which presented the result of further assessment of the RAFI Multi Factor Climate Transition (MFCT) index in line with Committee and Board instructions and summarised implementation considerations for the Fund. It was noted that the report recommended implementation of the RAFI MFCT (Developed) strategy and it was explained that further information was set out in the exempt appendix to the report.

The Chair thanked the members of a local organisation who had been in contact about clarifying the recommendations in this report; it was noted that the amended recommendations had been included as a late paper.

It was explained that the Pension Fund had been seeking to reduce its carbon intensity. It was noted that a test of the RAFI MFCT strategy had been undertaken and it was found that, had this strategy been used for the Pension Fund, it would have resulted in reduced carbon intensity and would have outperformed the current strategy in all periods tested. It was commented that the only outstanding issue was the cost of moving to the RAFI MFCT (Developed) strategy; it was noted that Mercer was awaiting further information from Legal and General Investment Management and that it may be possible to discuss this in more detail in the exempt section of the meeting.

The Pensions Committee and Board agreed to the recommendations and agreed the amendment to the recommendations, namely to note that moving to the RAFI Multi Factor Climate Transition Strategy will reduce carbon intensity, rather than will reduce the Fund's carbon intensity.

Following consideration of the exempt information,

RESOLVED

1. To agree to implement the RAFI Multi Factor Climate Transition (Developed) strategy set out in Appendix 1 and delegate the authority to implement the strategy to the Assistant Director of Finance, subject to confirmation of costs by Legal and General Investment Management.

2. If the above recommendation is agreed, to delegate authority to the Assistant Director of Finance to update and republish the fund's Investment Strategy Statement consistent with this change.

3. To note that moving to the RAFI Multi Factor Climate Transition Strategy will reduce ~~**the Fund's**~~ carbon intensity by 70% compared to the current index and will further reduce ~~**the Fund's**~~ carbon intensity by 7% annually.

4. To note that moving to the RAFI Multi Factor Climate Transition Strategy will reduce the Fund's equity portfolio carbon footprint overall by 50% compared to current levels.

15. PERFORMANCE REVIEW OF THE PENSION FUND'S INVESTMENT MANAGEMENT CONSULTANTS

The Head of Pensions and Treasury introduced the report which provided a review of the performance of the Pension Fund's investment management consultants, Mercer, over the past twelve months. It was explained that the Competition and Markets Authority (CMA) had required the Pension Fund to review the performance of its investment management consultants. It was noted that the Pensions Committee and Board had agreed six strategic objectives for reviewing performance at its meeting on 19 November 2019.

It was explained that the performance review itself contained exempt information which would be considered in detail in the exempt section of the meeting. Once the Pensions Committee and Board had reviewed this performance, the results would be reported back to the CMA.

Following consideration of the exempt information,

RESOLVED

1. To note the performance review of the Fund's appointed investment management consultants against agreed strategic objectives; the review was attached as a exempt appendix to the report.

2. To delegate authority to the Head of Pensions to communicate the outcome of this review to the Competition & Markets Authority in order to fulfil reporting requirements.

16. NEW ITEMS OF URGENT BUSINESS

There were no new items of urgent business.

17. DATES OF FUTURE MEETINGS

It was noted that the future Pensions Committee and Board meetings were scheduled for:

21 January 2021
4 March 2021

18. EXCLUSION OF THE PRESS AND PUBLIC

It was noted that items 19-22 contained 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).

RESOLVED

That the press and public be excluded from the meeting for consideration of items 19-22 as they contained 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).

19. IMPLEMENTATION OF THE RAFI MULTI FACTOR CLIMATE TRANSITION STRATEGY

The Committee considered the exempt information.

20. PERFORMANCE REVIEW OF THE PENSION FUND'S INVESTMENT MANAGEMENT CONSULTANTS

[The representatives from Mercer left the meeting for the duration of this item.]

The Committee considered the exempt information.

21. EXEMPT MINUTES

RESOLVED

That the exempt minutes of the Pensions Committee and Board meeting held on 20 October 2020 be confirmed and signed as a correct record.

22. NEW ITEMS OF EXEMPT URGENT BUSINESS

There were no new items of exempt urgent business.

CHAIR: Councillor John Bevan

Signed by Chair ………………………………..

Date …………………………………