

MINUTES OF THE MEETING OF THE PENSIONS COMMITTEE AND BOARD HELD ON THURSDAY, 9TH FEBRUARY, 2017

PRESENT:

Councillors: Clare Bull, John Bevan, Viv Ross, Keith Brown, Plowright and Tucker

41. 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.

42. APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr M Blake and Cllr G Bull.

43. URGENT BUSINESS

There were no items of urgent business.

44. DECLARATIONS OF INTEREST AND CONFLICTS OF INTEREST

There were no declarations of interest.

45. RECORD OF TRAINING UNDERTAKEN SINCE LAST MEETING

Cllr Bevan, Cllr Ross, Cllr Tucker, Keith Brown and Randy Plowright had attended a training session on Non-Directional Investments in advance of the meeting.

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

Cllr C Bull: Local Authorities Pension Fund Forum AGM 31/01/17

Cllr Bevan: BlackRock Charities Annual Conference 22/11/16
Macquarie, Infrastructure debt, a smart LDI alternative 06/12/16
Local Authorities Pension Fund Forum Annual Conference 7-9/12/16
SPS Annual Bond Investment Strategies 10/01/17
PIA "Fees and Cost Transparency in a Low Return Environment" A look at both explicit and implicit fees and charges 25/01/17
Local Authority Pension Fund Forum AGM 31/01/17
SPS Investment Strategies to Address Current and Forthcoming Challenges Conference 09/02/17

Cllr Ross: Hayfin Capital Management Ltd and Ares Management Ltd: Direct Lending training
Insurance Linked Securities

46. MINUTES

Update on actions

Minute 25: Minutes – confirmed that an email to PIRC had been drafted as agreed, for clearance by the Chair prior to issuing.

Minute 26: Pensions Administration Report – an update on the Pensions Regulator's online self-assessment exercise would be presented to the March meeting of the Committee and Board.

Minute 27: Triennial Valuation 2016 – confirmed that the amendment agreed to the wording of the report had been made.

Minute 28: Funding Strategy Statement – a report on the FSS would be presented to the March meeting of the Committee and Board.

Minute 30: Quarterly Pension Fund Performance and Investment Update – noted that the move to a third of equities in the Low Carbon Index had not yet been actioned by the Fund Manager. A report on the possible rebalancing of the Fund portfolio, in particular looking at currency hedging, was on the agenda for this meeting. The Age UK settlement was awaited – this had been expected before Christmas 2016 and was being chased.

RESOLVED

That the minutes of the meeting held on 21 November 2016 be approved as a correct record and signed by the Chair.

47. PENSIONS ADMINISTRATION REPORT

The Committee and Board considered the Pensions Administration report, presented by Janet Richards, Pensions Manager. The report asked the Committee and Board to note the update draft Pensions Administration Strategy prior to consultation with the employers, and to approve the amended Internal Disputes Resolution Procedure.

In response to a question from the Committee regarding whether the Council was complying with the summary of communication, as set out in appendix 1 to the draft Pensions Administration Strategy Statement, it was confirmed that an Employers Forum was scheduled for 28th February 2017, communication with employers was now via a newsletter as set out, scheme members were issued an annual benefit statement and pensioners also received a newsletter. It was confirmed that the annual benefits statements had been issued on deadline this year, and the Committee and Board welcomed this achievement.

The Committee asked about the difference between costs recovered in cases of ill health and in all other cases, as set out at the bottom of appendix 6 to the draft Strategy Statement on early retirement costs recharged to the scheme employer. It was confirmed that ill health was usually recovered over a period of time as an additional cost to employer contributions, whereas in all other cases costs were required to be paid to the fund by the employer immediately.

The Committee asked whether appendix 11 to the draft Strategy Statement was affected by the recent court ruling in respect of pensions rights for cohabiting partners – it was confirmed that the Council was not affected by this ruling, as the Council’s policy did not require the completion of a form in order to nominate a cohabiting partner. The Committee noted that the draft Strategy Statement as currently worded gave the implication that completion of a form was necessary, and it was suggested that the wording of the introductory paragraph to this appendix be amended to make it clear that members were encouraged to complete the nomination form, but this was not mandatory.

Action: Pensions Manager

RESOLVED

- i) That the Committee and Board note the updated draft Pensions Administration Strategy Statement to go out to consultation with stakeholders, with the amended wording relating to members being encouraged to complete a nomination form in relation to cohabiting partners but clarifying that this was not mandatory.
- ii) That the Committee and Board approve the updated Pensions Internal Disputes Resolution Procedure, which notes that the new ‘stage one’ adjudicator is the Head of Human Resources Operations.

48. GOVERNANCE UPDATE REPORT

The Committee and Board considered the Governance Update report, presented by Oladapo Shonola, Head of Finance – Treasury and Pensions. The Committee noted that the Fund’s compliance with the Scheme Advisory Board’s KPIs had increased to 40 out of 59, with the increase in funding level and timely publication of benefits statements having contributed to this increased score. It was noted that in relation to the recommendations arising from the Governance Review, number 12, the preparation and approval of the Fund’s Statement of Investment Principles, was on the agenda for this meeting and would therefore be removed as completed once approved.

In response to a question regarding achieving the full score of 59 out of 59, it was reported that it may not be possible to achieve the maximum score, due to the nature of some of the KPIs, e.g. in respect of the KPI for reducing the number of years for the repayment of the deficit, it was unlikely that this would be achievable, given the wider pressures on the General Fund. Those actions that were achievable, however, were being worked on.

The Committee and Board noted that the timely issuing of the annual benefits statements this year was a significant achievement, and that congratulations were due to Council officers and employers for delivering this; the issuing of this information in a timely manner had been a major issue for a number of Funds.

RESOLVED

That the content of the report be noted.

49. WORK/FORWARD PLAN

The Committee and Board considered the report on the Forward Plan, as introduced by Oladapo Shonola, Head of Finance – Treasury and Pensions. It was noted that there had been no changes to the Committee and Board’s forward plan since the previous report and that the dates of the meetings for the coming municipal year were still to be confirmed.

The Vice-Chair advised the Committee and Board about the LAPFF mentoring scheme for anyone involved in the governance of Pension Funds, and it was agreed that details of this would be circulated to the Committee and Board.

Action: Clerk

It was agreed that details of the Schrodgers Trustee training sessions on 21 October and 11 November 2017 would be added to the training programme, and it was suggested that these would be useful for any incoming Committee and Board Members in particular. It was also confirmed that the Council would provide in-house introductory training for any new members of the Committee and Board, as well as continuing to encourage all Committee and Board members to attend as wide a range of training as they could.

Action: Head of Finance – Treasury and Pensions / Head of Pensions

RESOLVED

That the content of the report be noted and the training programme be updated to include details of the Schrodgers Trustee training sessions.

50. RISK REGISTER REVIEW / UPDATE

The Committee and Board considered the report on the Risk Register, as introduced by Oladapo Shonola, Head of Finance – Treasury and Pensions. The areas for focus at this meeting were pensions administration and communications, and it was noted that there was only one ‘red’ risk within these categories, in relation to the structure of the pensions team. The Committee was advised that the appointment of Thomas Skeen as the new Head of Pensions would help to address this risk status, as would the transfer of the Pensions Administration team to report into the new Head of Pensions rather than the Shared Service Centre.

In relation to the overall summary, the Committee and Board asked why the London CIV failing to meet the needs of the Fund was categorised as a ‘red’ risk. It was reported that the CIV needed to meet the needs of the Fund as Haringey would be

required to use the CIV in future and it was therefore in the Fund's interests for it to be fit for purpose; currently the CIV had significant progress still to make. It was felt that it was right for this to be flagged as a 'red' risk at present.

The Committee also noted the 'red' risk around the turnover of Committee and Board membership. The Chair advised that she would be discussing this issue with the new Head of Pensions, looking at additional ways of supporting members of the Committee and Board, and at the recruitment and retention of non-Councillor Members.

In response to a question from the Committee, it was confirmed that there had been no reduction in staffing numbers as a result of the restructure of the Pensions team and that the new structure should help to support the work of the team. It was confirmed that this risk would be reviewed once the new structure was fully implemented and it was hoped that the level of the risk could be downgraded.

RESOLVED

That the content of the report be noted.

51. QUARTERLY LAPFF ENGAGEMENT REPORT

The Committee and Board considered the Quarterly LAPFF Engagement Report, as presented by Oladapo Shonola, Head of Finance – Treasury and Pensions.

In relation to the voting alert issued for the Sports Direct EGM as set out in the report, the Committee and Board noted that the Fund held shares in Sports Direct as the result of its investment in indexed funds, and that the nature of funds of this type meant that there was no way to disinvest from individual holdings which may be of concern to the Committee and Board members. Concern was expressed at the potential reputational risk to the Fund arising from certain holdings, although it was noted that there were significant financial costs associated with different models of investing that provided greater control of the individual companies invested in, and that it was a requirement for the Committee and Board to act in the financial interest of the Fund as its primary consideration. The Fund had previously experienced under-performance in relation to active fund management, prior to its decision to move to index linked, passive equity holdings. It was noted that the legislation was very clear that the primary consideration for Funds had to be financial, but that other considerations (such as social and ethical impacts) could be taken into account, subsidiary to financial consideration.

The Chair noted that these were issues that the Committee and Board were concerned with, and that the decision to move into the Low Carbon Index had been an example of a decision made in order to address wider concerns, while protecting financial return. The Committee and Board also expressed an interest in exploring investment options with a positive social impact, such as the recent Pension Fund investment in social housing projects agreed by Islington. It was suggested that there was scope for the Committee and Board to give further consideration to alternative models of investment as part of a training session, both in terms of ways of

addressing concerns about individual holdings, and potential ways of investing to deliver positive social impact.

John Raisin, independent advisor to the Fund, proposed that a report on the guidance around such issues be brought back to the next meeting for consideration.

It was noted that membership of the LAPFF was a way of mitigating against some of the reputational risks associated with certain holdings, and that engagement with companies via the LAPFF could be a more effective means of influencing behaviour than divestment. The Committee requested that voting alerts issued by the LAPFF be circulated to the Committee and Board, along with confirmation that these had been acted on, and it was agreed that this would be undertaken.

Action: Head of Finance – Treasury and Pensions / Head of Pensions

RESOLVED

That the content of the report be noted.

52. FUND INVESTMENT/ACTUARIAL SERVICES CONTRACTS CONSULTANT EXTENSION

Representatives from Mercer left the room for discussion of this item.

The Committee considered the report on the proposed Fund Investment and Actuarial Services Contract Extensions, as introduced by Oladapo Shonola, Head of Finance - Treasury and Pensions.

In response to a question from the Committee as to how the Fund evaluated the value for money provided by the Investment Consultants, officers advised that their performance was evaluated against the contract that was tendered. Officers had also reviewed the way in which the Fund's strategy had developed during the course of the contract, and the savings and returns realised on the basis of the advice provided.

It was reported that the new tender exercise would commence in August or September 2017 for the Investment Consultancy Contract – a report on the procurement process would be brought to the Committee for approval. A report would be brought to the July 2017 meeting regarding the actuarial services contract.

RESOLVED

That the Committee and Board agree that the COO, under delegated authority, authorise:

- i) The extension of the Pension Fund's Investment Consultancy contract by one year to the 21st January 2018; and
- ii) The extension of the actuarial services contract to 31st July 2017.

53. DRAFT STATEMENT OF INVESTMENT PRINCIPLES

The Committee and Board considered the report on the draft Statement of Investment Principles, introduced by Oladapo Shonola, Head of Finance – Treasury and Pensions. The document had been updated to reflect changes to the investment strategy agreed by the Committee and Board in previous meetings. It was reported that it was helpful to agree the draft SIP at this stage, as this would inform the Fund's Investment Strategy Statement, which was to be reported to the Committee and Board at its next meeting.

RESOLVED

That the Committee and Board approve the draft Statement of Investment Principles, attached at Appendix 1 to the report.

54. REVIEW CQS (MULTI-SECTOR CREDIT) BENCHMARK

The Committee and Board considered the report on the review of the CQS (Multi-Sector Credit) benchmark, introduced by Oladapo Shonola, Head of Finance – Treasury and Pensions, and Steve Turner, Mercer. Mr Turner advised that, since the report had been drafted, CQS performance for 2016 had been 7.2%, an over-performance against target. Looking at average performance since fund inception, it was confirmed that CQS had performed completely in line with a target of cash plus 5%, which was the recommended revised target.

The Committee noted that the date set out in the 'reason for decision' section of the report should be amended to read 11th July 2016, and not 2017 as currently stated.

John Raisin, independent advisor to the Fund, endorsed the recommendation of the report on the basis that CQS were a positive contributor to the Fund, and provided the Committee and Board with some further information on Multi-Sector Credit as an asset class.

RESOLVED

That the Committee note the report and approve the new target for the multi sector credit manager, CQS, as LIBOR + 5%.

55. REVIEW OF INVESTMENT STRATEGY - NON-DIRECTIONAL INVESTMENT

The Committee and Board considered the report on the review of the Investment Strategy – Non-Directional Investment, presented by Steve Turner, Mercer. The report noted the significant positive contribution recently made to the Fund by currency, and set out options for locking in some of those gains by currency hedging, as well as wider considerations around possible changes to the investment strategy as had been covered in the training session prior to the meeting. Officers endorsed the findings of the Mercer recommendation in respect of currency hedging as a means of reducing the risk to the Fund.

In response to a question from the Committee regarding the costs associated with amending the investment strategy, it was noted that some of the recommendations for currency hedging would have a slightly higher management cost, and there was also be one-off transaction costs associated with moving funds, however the overall recommendation was that these changes would be beneficial to the Fund. Further to the report having been produced, it was reported that the option of a hedged Low Carbon Index fund was now available, and this was felt to be of interest to the Committee and Board. In response to a question from the Committee, it was confirmed that it would be an easy process to introduce currency hedging, and also to withdraw from it if economic circumstances were to change – authority could be delegated by the Committee and Board to enable the COO, in consultation with the Chair, to implement changes to the strategy within certain parameters, in order to enable the Fund to respond quickly to changing circumstances if necessary.

It was agreed that a report would be brought to the next Committee setting out detailed proposals for the introduction of currency hedging and setting out the parameters within which the COO, in consultation with the Chair of the Committee and Board, could act to change the currency hedging allocation.

The Committee and Board agreed that a report on strategy review should be presented to the next meeting, with a focus on the key issues of inflation protection against liabilities, and the reduction of the direct equity allocation, with a move to multi-asset strategies. It was noted that any changes to the investment strategy would need to be made quickly so that moves could be implemented before the change in the status of the Fund as of 31 December 2017, which would prevent the Fund from taking strategic asset allocation decisions, and it was therefore important for the Committee and Board to take any such decisions at the earliest opportunity.

In response to a question from the Committee and Board regarding the investment decision made by Islington with regards to social housing, the Chief Operating Officer agreed to meet with interested Members outside the meeting to discuss this product in further detail, and would also bring an update on this matter back to the Committee and Board.

Action: Chief Operating Officer

RESOLVED

- i) That the Committee note the content of the report and attached appendices.
- ii) That a report on strategy review be brought back to the next meeting of the Committee and Board for consideration, focussing on the key areas of inflation protection against liabilities and introducing multi-asset strategies, with an associated reduction in direct equity allocation.
- iii) That the Committee agree in principle to the introduction of a 50% currency hedge ratio, with a further report to be brought back to the next meeting of the Committee and Board setting out the final recommended allocation and parameters within which the COO would be delegated to act in consultation with the Chair of the Committee and Board to change the allocation.

56. NEW ITEMS OF URGENT BUSINESS

There were no new items of urgent business.

57. DATE OF NEXT MEETING

16 March 2017, 7pm.

58. EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

That the press and public be excluded for the following items on the agenda.

59. EXEMPT MINUTES

RESOLVED

That the exempt minutes of the meeting held on 21 November 2016 be approved as a correct record and signed by the Chair.

60. RENEWABLE ENERGY MANAGER SELECTION

The Committee and Board considered the update on the progress of the appointment of the Renewable Energy Manager, introduced by Oladapo Shonola, Head of Finance – Treasury and Pensions.

The Committee noted that the commitment amount as set out on page 4 of the attached letter was inaccurate and should read £35m, on the basis of a 50/50 split between the two managers.

RESOLVED

That the Committee and Board note the content of the s36 suitability letter from bfinance dated 11 January and attached at Appendix 1 to the report.

61. NEW ITEMS OF EXEMPT URGENT BUSINESS

There were no new items of urgent business.

The Chair noted that this was the final meeting of the Committee and Board that Oladapo Shonola would be attending. The Committee and Board members expressed their thanks to Oladapo Shonola for all of his support to the work of the Fund over the past year and wished him well for the future.

The meeting closed at 8.45pm.

CHAIR:

Signed by Chair

Date