MINUTES OF THE MEETING OF THE PENSIONS COMMITTEE AND BOARD HELD ON MONDAY, 27TH MARCH, 2017, 7.00 - 9.20 pm

PRESENT:

Councillors: Clare Bull, John Bevan, Mark Blake, Noah Tucker and Clive Carter

Employer/Employee Representatives: Keith Brown and Randy Plowright

62. 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.

63. APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr Ross, for whom Cllr Carter was substituting.

64. URGENT BUSINESS

A late amendment to the recommendation in the report for agenda item 8, Pensions Administration Report, had been circulated prior to the meeting.

65. DECLARATIONS OF INTEREST AND CONFLICTS OF INTEREST

There were no declarations of interest or conflicts of interest.

66. RECORD OF TRAINING UNDERTAKEN SINCE LAST MEETING

Cllr Bevan, Cllr Blake, Cllr Carter, Cllr Tucker, Keith Brown and Randy Plowright had attended a training session on Infrastructure Debt in advance of the meeting.

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

Cllr Bevan: P&LSA Pension issues breakfast briefing 16/02/17
London CIV conference 01/03/17

67. MINUTES

Minute 46: Minutes – agreed that the draft email to PIRC would be circulated for information.

Action: Head of Pensions

Minute 51: Quarterly LAPFF Engagement Report – agreed to strengthen the wording relating to looking at possible ways of divesting from unethical investments and actively seeking to invest in projects with a positive social impact.

RESOLVED

That, with the amendment to Minute 51 as set out above, the minutes of the meeting held on 9 February 2017 be approved as a correct record.

68. DRAFT INVESTMENT STRATEGY STATEMENT

The Chair agreed to vary the order of the agenda to take the report on the draft Investment Strategy Statement next.

The Committee considered the report on the draft Investment Strategy Statement, as introduced by John Raisin, Independent Advisor to the Fund. Mr Raisin gave details of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the LGPS Investment Regulations 2016) and the implications of these for the Fund. The Committee noted that the new regulations now promoted an Environmental, Social and Governance (ESG) approach, and as an example, Mr Raisin advised of a local authority who had chosen to invest 1% of their fund in a social impact fund.

The Committee asked about the social impact fund investment referred to by Mr Raisin, and whether this investment was only in projects local to that authority. Mr Raisin advised that the projects were not local to the authority, as there would be difficulty in identifying local projects on which you could be sufficiently confident in the returns to justify investment on financial grounds. It was noted that there was nothing to restrict a local authority from making social impact investments on a local level if these were demonstrably prudent on financial grounds, but it would be a challenge to identify suitable investments and would require very high levels of due diligence and consideration in order to ensure that such investment was prudent. The Committee expressed an interest in speaking to other authorities where social impact investments had been made for projects such as social housing, in order to learn more about these possibilities.

Steve Turner, Mercer, advised the Committee that, in line with the new regulations, the Fund's Investment Strategy Statement was now required to include details of risks to the Fund, and was also required to have a statement on the approach to asset pooling.

The Chair advised that a representation had been received from Friends of the Earth in respect of the wording of the draft Investment Strategy Statement and allowed Quentin Given, Friends of the Earth, to briefly address the Committee regarding the proposed amendment. Mr Given noted that Friends of the Earth welcomed the statement in the Social, Environmental and Corporate Governance Policy (section 5 of the draft strategy) that ‘The Fund believes that further reduction in exposure to fossil fuel industries will reduce risk and secure stronger returns for the fund over the long term’ and proposed the following additional text:

“We will seek to ensure all funds are in low-carbon investments – or positively invested in renewable energy or other green industries – as soon as reasonably possible.

As well as benefitting the Fund, this will encourage other councils and institutions to adopt similar approaches, and so increase momentum to reduce the devastation unrestrained climate change would cause and strengthen the move towards a sustainably prosperous world economy.”

In response to the amendment proposed by Friends of the Earth, Thomas Skeen, Head of Pensions, Mr Turner and Mr Raisin expressed concern regarding the practicality of making a commitment as proposed to moving all funds to low-carbon investments and regarding some of the wording as drafted, although in response to a question from the Chair it was confirmed that there was scope to include some wording around the Fund sharing its experience of ESG investing with other local authority pension funds. It was suggested that the wording of any proposed addition to the strategy be taken away for further consideration and professional advice outside the meeting, for discussion at a future meeting.

The Committee acknowledged the need to give further consideration to any proposed changes to the draft strategy before any changes could be formally agreed, but expressed sympathy with the aims of the proposal from Friends of the Earth and requested a report at the next meeting of the Committee and Board setting out options for giving the Committee a greater ability to divest from unethical investments and for identifying opportunities for positive social impact investing.

The Committee noted that, in order to comply with the regulations, it was necessary to adopt an Investment Strategy Statement at this meeting and therefore proposed that the draft statement as presented in the report be adopted, with work on some amended wording in relation to ESG matters to be undertaken outside the meeting and an updated strategy brought back to a future meeting for agreement. It was also agreed that a report on the Fund’s option in relation to divestment from fossil fuel and other investments considered undesirable from an ESG perspective, and on options for positive social impact investing, be brought to the next meeting of the Committee and Board for consideration.

RESOLVED

i) That the Committee and Board note the contents of Appendix 1: a summary of the changes to the Local Government Pension Scheme investment regulations, prepared by the fund’s Independent Advisor: John Raisin Financial Services Limited.

ii) That the Committee and Board note and approve the draft Investment Strategy Statement attached as Appendix 2 of the report.

iii) That the Committee and Board agree to the Fund committing to becoming a signatory to the Financial Reporting Council (FRC) UK Stewardship Code.

69. PENSION FUND AUDIT PLAN - YEAR TO 31ST MARCH 2017

The Committee and Board considered the report on the Pension Fund Audit Plan, introduced by Thomas Skeen, Head of Pensions. The report from BDO was presented by Kerry Barnes, who set out the key points including materiality, key audit risks - in particular disclosures required for the first time this year due to changes in the guidance, independence of the audit and the audit fee, which the Committee noted was the same as the previous year.

The Committee asked about the requirement to disclose only a percentage of the remuneration of key management personnel, in response to which Ms Barnes advised that this was to reflect the cost charged to the pension fund.

In response to a question from the Committee regarding 'hidden' fees in relation to investment management expenses, Ms Barnes advised that this was an issue that CIPFA and the Pensions Regulator had been looking into; although it was not mandated that such fees be disclosed separately for this year's audit, it was likely that this would be mandated in the following year, and funds were therefore being asked to obtain fee information from Fund Managers for disclosure where possible this year.

RESOLVED

That the report be noted.

70. PENSIONS ADMINISTRATION REPORT

The Committee and Board considered the amended version of the Pensions Administration Report, as circulated in advance of the meeting and admitted as an item of urgent business under agenda item 3. Janet Richards, Pensions Manager, introduced the report, which covered an update on the Pensions Regulator self-assessment tool and the admission of Ategi Ltd as a new employer to the Pension Fund.

Referring to the self-assessment toolkit, the Committee asked whether receiving poor quality or incomplete data was an issue for the Fund and what was being done to address this, if so. Ms Richards advised that there were some issues obtaining data from external fund employers; as set out in the Pensions Administration Strategy Statement, it was noted that the Council had the ability to fine employers, and this was an option that was being considered for when such issues arose in future. The Committee asked for confirmation of whether the option to fine employers related to the submission of data, or whether this was only for late payment of pension contributions and it was agreed that this would be confirmed to Members outside the meeting.

Action: Head of Pensions

RESOLVED

i) That the Committee and Board note the results of The Pensions Regulator Self Assessment Tool for LGPS schemes attached in Appendix 1.

ii) That the Committee and Board approve the admission of Ategi Ltd 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.

71. GOVERNANCE REPORT

The Committee and Board considered the quarterly governance report, as introduced by Thomas Skeen, Head of Pensions. The Committee noted that the Fund's score against the Scheme Advisory Board's key performance indicators had increased by 1 since the previous meeting (relating to fund manager performance) and now stood at a 69% achievement rate.

RESOLVED

That the Committee and Board note progress since the last report to the Committee and Board on performance against the Scheme Advisory Board's key indicators and recommendations from the governance review.

72. FORWARD PLAN

The Committee and Board considered the quarterly report on the forward plan, as introduced by Thomas Skeen, Head of Pensions.

The Committee noted that reports on the CQS mandate and the review of Low-Carbon investment options would be added to the forward plan for the agenda for the July meeting of the Committee and Board, and that there would also be either a training session or report at the July meeting on social impact investment – it was agreed that officers and advisors would discuss the best way of taking this forward outside of the meeting.

It was noted that Keith Brown had completed the Pension Regulator's online toolkit and the training record would be updated accordingly.

RESOLVED

That the Committee and Board agree the additions to the forward plan above, and note the work plan and update on member training.

73. RISK REGISTER - REVIEW / UPDATE

The Committee and Board considered the report on the Fund's risk register, introduced by Thomas Skeen, Head of Pensions. It was noted that there had been no change in the risks since the last meeting, and that the focus of this report was on Accounting and Investments.

The Committee asked about the red rated risk relating to turnover of Committee Members and asked whether there was any merit in proposing that the term of office for Pensions Committee and Board members be longer than a year. It was noted that there may be a risk that people would be deterred from standing for the Committee and Board if this were the case, however it was also felt that people committing to sit on the Committee and Board for a longer period would make it a more effective body. The Committee and Board noted its unique arrangement in having obtained an exemption from Government to operate as a joint body, and the expectation that it would operate to a higher standard as a result. It was agreed that Members would discuss this possibility further outside the meeting.

RESOLVED

i) That the Committee and Board note the risk register.

ii) That the Committee and Board note that the area of focus for review at the meeting was 'Accounting' and 'Investments' risks.

74. PENSION FUND QUARTERLY UPDATE

The Committee and Board noted the quarterly Pension Fund update report, as introduced by Thomas Skeen, Head of Pensions. It was noted that the value of the Fund had increased by £49m in the quarter from October to December 2016. In respect of the portfolio allocation, it was noted that the Fund was currently overweight in equities compared with the strategy, however it was expected that the level of equities would decrease as managers drew down to make investments in other asset classes as agreed.

The Committee and Board welcomed the greater context that was provided in this report and noted that, whilst regulations no longer required a quarterly report to be produced, it was best practice to do so.

RESOLVED

That the information provided in respect of the three months to 31st December 2016 be noted.

75. QUARTERLY LAPFF ENGAGEMENT REPORT

The Committee and Board considered the quarterly LAPFF engagement report, as introduced by Thomas Skeen, Head of Pensions. It was noted that in the last quarter LGIM had voted in line with the LAPFF voting recommendation relating to Euromoney, although the outcome of the vote had ultimately gone against this recommendation.

The Committee and Board welcomed the update, and the reassurance that LAPFF guidance was being followed in relation to votes undertaken on behalf of the Fund.

RESOLVED

That the Committee and Board note the report.

76. CONFLICTS OF INTEREST POLICY

The Committee and Board considered the report on the Conflicts of Interest Policy, as introduced by Thomas Skeen, Head of Pensions. It was noted that it was a requirement of the Committee and Board's terms of reference that the Conflicts of Interest policy be reviewed on an annual basis, and that there had been no significant change to the policy since last year. Members were asked to complete their annual conflicts of interest declaration and return these to officers in accordance with the requirements of the policy.

RESOLVED

That the Committee and Board adopt the Conflicts of Interest Policy as set out at Appendix 1 to the report.

77. 2016 TRIENNIAL VALUATION - FINAL RESULTS, AND DRAFT FUNDING STRATEGY STATEMENT (FSS)

The Committee considered the report on the final results of the 2016 Triennial Valuation and the draft Funding Strategy Statement, as introduced by Thomas Skeen, Head of Pensions. It was noted that the final results were in line with the draft results which had been reported to the Committee in November 2016, and that the funding position as reported in the final report had increased to 79%.

In response to a question from the Committee and Board, it was agreed that officers would ask Hymans Robertson to provide information on the level of discount rate that would result in the Fund being assessed as fully funded if applied.

Action: Head of Pensions

It was confirmed that the Council's contribution rate was set to remain the same for the next two years, and would then increase by 1.5% in year 3, 2019/20.

The Committee and Board noted that the outcome of the report was very positive.

RESOLVED

i) That the Committee and Board note the final results of the triennial valuation of the Fund.

ii) That the Committee and Board agree the Funding Strategy Statement.

78. FUND ADMINISTRATION SYSTEM CONTRACT

The Committee and Board considered the report on the Pensions Administration System contract, as introduced by Thomas Skeen, Head of Pensions. The Committee and Board noted that the cost of the proposed contract was less than the current contract.

In response to a question from the Committee and Board, it was reported that AquilaHeywood Ltd were not the only provider of such systems, but did account for the majority of the market, with around 80% of LGPS funds using the proposed system. Benchmarking with neighbouring local authorities had indicated that Haringey was achieving value for money in respect of the costs associated with its Pensions Administration Service.

RESOLVED

i) That the Pensions Committee and Board approve for the Council to enter into a five year contract with AquilaHeywood for Pensions Administration Systems, commencing 21 April 2017 to 20 April 2022 in accordance with Contract Standing Order (CSO) 3.01b.

ii) That the contract be procured by a call off from a Framework Agreement set up by Northumberland County Council for pensions administration systems as permitted by CSO 7.01b.

iii) That the cost of the proposed contract be £132k per annum (subject to indexation) and the total for 5 years be £659k (subject to indexation).

79. CURRENCY HEDGING IMPLEMENTATION PLAN

The Committee and Board considered the report on Currency Hedging Implementation, and the content of the exempt report provided by Mercer. Following on from the discussion at the previous meeting of the Committee and Board, the report set out the proposed passive equity portfolio after implementation of the 50% currency hedge and details of rebalancing to be put in place with LGIM, details of the proposed implementation timetable and options for adopting a ‘trigger’ to accelerate the currency hedging implementation if breached. The Committee noted that LGIM had agreed to establish a currency hedged shareclass for the MSCI World Low Carbon Target Index fund specifically for the use of the Fund in order to enable the implementation of this strategy.

The Committee and Board expressed some concern regarding the ability of officers to monitor the ‘trigger rate’ as proposed, and the risk of a breach being overlooked. Officers suggested that this was the most practical arrangement for monitoring of the ‘trigger rate’ – checking rates could be undertaken as a quick task on a daily basis, and any change in rates approaching or breaching the ‘trigger rate’ was likely to be widely reported in the news and would therefore be unlikely to be overlooked.

RESOLVED

i) That the Committee and Board note and agree to the content of Appendix 1 to the report, a currency hedging implementation plan from Mercer, the Fund’s Investment Consultant. The plan being to hedge 50% of the Fund’s exposure to developed market overseas equity in three tranches over a 2 month period. This utilises the existing relationship with Legal and General Investment Management, to ensure costs are kept to a minimum.

ii) That the Committee and Board give delegated authority approval to the Chief Operating Officer to speed up the currency hedging implementation, should Sterling fall to the ‘trigger rate’ of 1.20 compared to the US dollar (a historic low not breached since 1985).

80. REVIEW OF FUND INVESTMENT STRATEGY

The Committee and Board considered the report on the Investment Strategy Review, and the content of the exempt report as introduced by Mercer. The report set out a number of different options for the fund’s investment strategy, and also suggested that the issue of liability risk be revisited by the Committee and Board following the completion of the actuarial advisor review process.

The Committee and Board discussed options around Multi-Asset Absolute Return (MAAR), and noted performance relating to two MAAR managers currently available with the London Collective Investment Vehicle (CIV), as well as performance for this asset class more widely. It was noted that these managers were active fund managers, as opposed to passive, and would be expected to achieve overall performance of around cash plus 4% - the difference in fee payable to such managers and the fee for passively-managed equities was noted, but also compared with the respective expected performance outcomes. The Committee and Board expressed an interest in this area, and it was suggested that a meeting be set up for members of the Committee and Board to meet with the managers available with the CIV on an informal basis.

The Committee and Board considered the infrastructure debt allocation; it was noted that this was likely to remain underweight compared to target, and the Committee and Board considered options for addressing this position. Of the options proposed, the Committee and Board expressed a preference to top up the CQS Multi-Asset Credit portfolio, a benefit of which was that the instruction could be implemented immediately.

The Committee and Board looked at ESG considerations. It was noted that compared with other funds, the Fund was very advanced in its consideration of such matters, and further options for developing this approach included investing in an active global sustainability equity strategy, considering an ESG index as the benchmark for the core passive equity exposure and investing in strategies designed to have a positive social impact as well as strong financial returns. It was noted that a separate report on positive social impact investment opportunities would be brought back to the next meeting of the Committee and Board for consideration. The Committee expressed an interest in considering an ESG index for the passive equity exposure, and requested performance information and further details in relation to this option.

RESOLVED

i) That the Committee and Board consider the proposals outlined by Mercer in appendix 1 to the report.

ii) That the Committee and Board agree to implement the proposal to reduce the benchmark allocation to Allianz to 3% and increase the strategic allocation to the CQS Multi-Asset Credit Strategy to 7%, with rebalancing from the current overweight equity portfolio.

iii) That further information be brought to the next meeting of the Committee and Board with regard to ESG indices for the passive equity portfolio, and on opportunities for social impact investing.

iv) That members of the Committee and Board be provided with an opportunity to meet with the MAAR fund managers available with the London CIV, prior to the next formal meeting of the Committee and Board.

81. NEW ITEMS OF URGENT BUSINESS

There were no new items of unrestricted urgent business.

82. EXCLUSION OF THE PRESS AND PUBLIC

83. FUND ADMINISTRATION SYSTEM CONTRACT

The Committee and Board noted the exempt information in relation to this report.

84. CURRENCY HEDGING IMPLEMENTATION PLAN

The Committee and Board noted the exempt information in relation to this report.

85. REVIEW OF FUND INVESTMENT STRATEGY

The Committee and Board considered exempt information in relation to this report.

86. NEW ITEMS OF EXEMPT URGENT BUSINESS

There were no new items of exempt urgent business.

The meeting closed at 9.20pm.

CHAIR:

Signed by Chair ………………………………..

Date …………………………………