

## Minutes

### PENSIONS COMMITTEE

21 January 2019

Meeting held at Committee Room 4 - Civic Centre,  
High Street, Uxbridge



HILLINGDON  
LONDON

	<p><b>Committee Members Present:</b> Councillors Philip Corthorne (Chairman) Martin Goddard (Vice-Chairman) Teji Barnes Tony Eginton John Morse</p> <p><b>LBH Officers Present:</b> Tunde Adekoya, Pension Fund Accountant Ken Chisholm, Head of Pensions Administration Sian Kunert, Head of Pensions, Treasury and Statutory Accounts Hayley Seabrook, Senior HR Operations Support Officer James Lake, Investment ManagerLead Corporate Accountant Liz Penny, Democratic Services Officer Paul Whaymand, Corporate Director of Finance</p> <p><b>Also Present:</b> David O'Hara, Investment Advisor – KPMG Roger Hackett, Pensions Board Member Zak Muneer, Pensions Board Member Hayley Seabrook, Pensions Board Member</p>
20.	<p><b>APOLOGIES FOR ABSENCE</b> (<i>Agenda Item 1</i>)</p> <p>There were no apologies for absence.</p>
21.	<p><b>DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING</b> (<i>Agenda Item 2</i>)</p> <p>Councillor Philip Corthorne declared a Non-Pecuniary interest in all agenda items because he was a deferred member of the Local Government Pension Scheme. He remained in the room during discussion of the items.</p> <p>Councillor Teji Barnes declared a Non-Pecuniary interest in all agenda items because she was a deferred member of the Local Government Pension Scheme. She remained in the room during discussion of the items.</p> <p>Councillor Tony Eginton declared a Non-Pecuniary interest in all agenda items as he was a retired member of the Local Government Pension Scheme. He remained in the room during discussion of the items.</p>
22.	<p><b>MINUTES OF THE MEETING DATED 30 OCTOBER 2018</b> (<i>Agenda Item 3</i>)</p>

**RESOLVED That: the minutes of the meeting dated 29 October 2018 be agreed as an accurate record.**

23. **TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE** (*Agenda Item 4*)

It was confirmed that all items marked Part I would be considered in public and those marked Part II would be considered in private.

24. **INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE PART I** (*Agenda Item 5*)

This item was preceded by a training item from KPMG on roles and responsibilities of the Pensions Committee. Key points highlighted were as follows:-

- At 31 December 2018, the Pensions Fund held approximately 1 billion pounds in assets and 1.4 billion in liabilities; less assets than liabilities - a situation which had been the same for a number of years. Annual employer contributions were around £33m in 2017/18. A formal valuation by the Scheme Actuary was due to take place at the end of March 2019. Funds were invested in Equity, Diversified Growth, Real Assets, Credit and Private Credit;
- Within the Fund there were 62 contributing employers, the largest being the London Borough of Hillingdon Council. In 2017/18, Hillingdon Council accounted for c. 71% of contributions paid in and c. 79% of members (approximately 5,500 employees);
- More than 50% of the Pensions Fund was invested in the London CIV and the rest in third party managing companies;
- The Governance Structure was outlined. It was explained that the purpose of the Pensions Board was to scrutinise the Pensions Committee and ensure it complied with regulations in relation to the Fund. The Pensions Committee was in turn responsible for setting strategic funding and investment policies for the Fund. Officers supported the Committee and progressed the implementation of Committee decisions;
- The London Collective Investment Vehicle (LCIV) was set up to manage the pooled assets of 32 London Local Authority Pension Funds, including the Hillingdon Fund. The Fund had 55% of assets invested via the LCIV at present;
- LGPS investment regulations changed in 2016 thereby removing prescriptive regulations and facilitating pool funding;
- A key directive of the 2016 investment regulations was to maintain an Investment Strategy Statement (ISS) which was published on the website;
- Recent guidance from Central Government encouraged individual funds to pool their assets quicker. New regulations from DWP in 2018 had lifted the bar for private sector pension schemes on EGS reporting.

Members commented that the steer from Central Government was useful but the Committee needed to make its own decisions.

David O'Hara, KPMG advisor, addressed the Committee. In late 2018 the Committee had agreed that there was a need to review the strategic allocation to Diversified Growth Funds (DGF) currently managed by Ruffer. It was reported that Ruffer had performed poorly over the last 12 months. Moreover, DGF's were not a cheap option as fees were high. The Committee did not have full confidence in the DGF allocation delivering the required performance objective and had asked KPMG to explore

possible alternatives. Three alternative strategic allocation options were discussed:-

1. Index-Linked Gilts + Equity - it was considered that this option would deliver broadly the same risk as the current arrangement;
2. Index-Linked Gilts + Infrastructure Equity - this option would decrease Diversified Growth exposure and would allocate a higher percentage of the Fund to Infrastructure Equity. Members were informed that the London CIV was in the process of launching an infrastructure fund. It was felt that this approach would reduce the risk as infrastructure was considered to be less volatile;
3. Index-Linked Gilts + Long-dated Inflation Linked Income - the Committee was advised that the London CIV was launching a Long-dated Inflation Linked Income fund. The money would be invested in property which could represent an over-concentration of investment in one area.

Councillors commented that option 1) would increase the Fund's equity exposure while option 3) would increase exposure to property - both options were not consistent with the Committee's desired approach. Members agreed that option 2) appeared the most attractive as it would build up protection against inflation. It was felt that the London CIV could offer more global options within the CIV umbrella. Zak Muneer, Pension Board Member, queried whether increased investment in infrastructure equity would be advisable with concerns discussed previously on exposure to emerging market infrastructure. It was confirmed that the London CIV infrastructure fund would be concentrated in core developed infrastructure markets in Europe and Scandinavia rather than in more risky markets such as China. The allocation would need to be explored thoroughly by the Committee prior to any decision being made.

It was noted that the Fund had underperformed to the benchmark over the last quarter to September 18 and the fund had lost value in the more recent period to December 18 largely due to a fall in equity markets in the quarter. The defensive characteristics of our managers appeared to be working effectively, with the exception of Ruffer. It was anticipated that the Fund would perform better in January 2019.

Sian Kunert, Head of Pensions Treasury and Statutory Accounts, agreed to further explore the LCIV sub fund offerings and index-linked bond options in order to weigh up the costs and returns. She would report back to the Committee at the next meeting.

**RESOLVED That the Committee:-**

1. **Considered and discussed issues raised in the training item;**
2. **Discussed the Fund performance update and agreed any required decisions in respect of mandates or Fund Managers'**
3. **Agreed to reduce strategic asset allocation in relation to Diversified Growth Fund allocation to zero and increase allocation to both index-linked bonds and infrastructure by 5%;**
4. **Delegated the implementation of any decisions to the Officer and Advisor - Investment Strategy Group;**
5. **Sian Kunert, Head of Pensions Treasury and Statutory Accounts, explore the LCIV infrastructure sub fund and index-linked gilts to weigh up the costs and returns and report back to the Committee at the next meeting.**

25. **ADMINISTRATION REPORT** (*Agenda Item 6*)

The report provided an update on the administration of the London Borough of Hillingdon Fund of the LGPS, both in relation to Surrey County Council and internally at Hillingdon.

Councillors were informed that there had been a number of changes at Surrey County Council and things had moved on significantly. SCC would be adjusting the parameters within the workflow system so that more accurate reports were produced covering the activities outlined in the KPI report. More staff had been recruited both at a senior level and on the help desk and members of the Fund had not reported any problems. Surrey County Council would be introducing the iConnect System over the next calendar year which would be more efficient and would be updated with real-time information on a monthly basis. It was hoped that year end information would be available before the end of May this year.

**RESOLVED That: the report be noted.**

26. **RISK MANAGEMENT REPORT** (*Agenda Item 7*)

The purpose of the report was to identify to the Pensions Committee the main risks to the Pension Fund and to enable them to monitor and review going forward.

**RESOLVED That:**

- 1. The Pensions Committee considered the Risk Register in terms of the approach, the specific risks identified and the measures being taken to mitigate those current risks. It was noted that there were no risks currently rated as red.**

27. **ANNUAL REPORT TO PENSIONS COMMITTEE** (*Agenda Item 8*)

The report was compiled to provide feedback to the Pensions Committee on the work undertaken by the Local Pension Board since the last report presented in Pensions Committee in September 2017 and to meet the legislative requirement for producing an annual report.

Members noted an error in the wording on page 54 of the report - in paragraph 9, line 3, 'since the structural changes in November 18' should read 'since the structural changes in November 17'.

Roger Hackett, Pensions Board Member, informed the Committee that no concerns had been raised. It was felt that the Pensions Committee were debating issues thoroughly and making good decisions.

**RESOLVED That: the report be noted.**

28. **INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE PART II**  
(*Agenda Item 9*)

*This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).*

The Committee received confidential information on the current market update which covered details on the current market climate and performance of various investment vehicles and updates on Managers' reports

	<b>RESOLVED: That the information be noted, together with the performance of Fund Managers.</b>
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	The meeting, which commenced at 5.00 pm, closed at 5.56 pm.
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These are the minutes of the above meeting. For more information on any of the resolutions please contact Liz Penny on 01895 250636. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

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