

Minutes

PENSIONS COMMITTEE

18 July 2018

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



	<p>Committee Members Present: Councillors Philip Corthorne (Chairman) Martin Goddard (Vice-Chairman) Teji Barnes Tony Eginton John Morse</p> <p>LBH Officers Present: Tunde Adekoya, Pension Fund Accountant Paul Whaymand, Corporate Director of Finance Ken Chisholm, Corporate Pensions Manager Sian Kunert, Head of Pensions Treasury and Statutory Accounts James Lake, Lead Corporate Accountant Hayley Seabrook, Senior HR Operations Support Officer – Pension Board Member Liz Penny - Democratic Services Officer</p> <p>Also Present: Adrian Balmer - Ernst & Young Roger Hackett - Pensions Board Member Scott Jamieson - Investment Advisor Zak Muneer - Head of Finance (LHC) – Pension Board Member Andrew Singh - KPMG</p>
	<p>COMMENT</p> <p>Councillor Corthorne expressed his gratitude to Councillor Markham for his invaluable contribution to the work of the 2017/18 Pensions Committee during his time as Vice-Chairman.</p>
1.	<p>APOLOGIES FOR ABSENCE (<i>Agenda Item 1</i>)</p> <p>There were no apologies for absence.</p>
2.	<p>DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING (<i>Agenda Item 2</i>)</p> <p>Councillor Philip Corthorne and Councillor Teji Barnes declared a Non-Pecuniary Interest in all agenda items because they were deferred members of the Local Government Pension Scheme. They both 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>

3.	<p>MINUTES OF THE MEETING DATED 28 MARCH 2018 (<i>Agenda Item 3</i>)</p> <p>RESOLVED: That the minutes of the meeting on 28 March 2018 be approved as an accurate record.</p>
4.	<p>TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE (<i>Agenda Item 4</i>)</p> <p>It was confirmed that items marked Part I would be considered in public and those marked Part II would be considered in private.</p>
5.	<p>REPORT ON PENSION FUND ACCOUNTS (<i>Agenda Item 5</i>)</p> <p>Adrian Balmer of Ernst & Young presented the External Auditor Report on the Pension Fund Accounts. Consideration was given to the Draft Pension Fund Annual Report for 2017/18 which included details of the Pension Fund Accounts.</p> <p>The Committee was informed that the London Borough of Hillingdon's Pension Fund Accounts were subject to a separate audit by the Council's external auditors. 2017/18 was the first year of the early close deadlines due to a change in legislation introduced through the Accounts and Audit Regulations 2015, which required the draft accounts completion date to move from 30 June to 31 May and the final approved audited accounts to be published by 31 July (previously 30 September).</p> <p>With regard to the status of the audit, Members were advised that good progress was being made and no significant issues had been identified to date. The auditors were awaiting confirmation from the banks.</p> <p>Members were informed that one area of the audit focus were 'significant risks'; it was reported that there was nothing to report in areas of significant risk. In terms of the other areas of audit focus, these were 1) Investment Manager Transition, 2) Valuation of Complex Investments (Unquoted Investments) and 3) the Earlier Deadline for production of the financial statements. The revised deadline had been noted and there was currently nothing to report regarding items 1) and 2); this was subject to final review.</p> <p>Consideration was given to the Draft Audit Report. Members were advised that the pension fund financial statements for the year ended 31 March 2018 had been audited; it was found that the financial statements gave a true and fair view of the financial transactions of the pension fund and had been appropriately prepared in accordance with regulations. It was reported that it had been a clean audit with no issues identified. No audit differences outwith the acceptable threshold had been identified to date. Data analytics had been used to enable the auditors to capture entire populations of the Fund's financial data; said data analytics helped to drive an efficient audit.</p> <p>Members expressed concern regarding the reduced time window for the audit and sought reassurance that this had not affected the quality or the integrity of the report. It was confirmed that no significant difficulties had been encountered and nothing had been done differently despite the revised timescales.</p> <p>Councillors requested further clarification regarding the figure of £15.3m as mentioned in the report under the heading of 'Audit Differences'. It was stated therein that any corrected misstatements greater than £15.3m identified during the course of the audit and corrected by management would be highlighted. Members were informed that</p>

there were no such misstatements to report as at the date of the report.

The Committee queried the IAS valuation figures in the table on page 102 of the report and were advised that the figures were in millions rather than thousands.

Mr Rodger Hackett informed the Committee that the Pensions Board had met and was now fully staffed; it would meet again at the end of the month.

RESOLVED:

- 1. That the Committee noted the auditor's findings on the audit of the Pension Fund accounts for 2017/18;**
- 2. That authority was delegated to the Pensions Committee Chairman or Vice-Chairman to sign the Pension Fund accounts on completion of the audit;**
- 3. That the Fund Annual Report was approved for publication subject to no material changes resulting from the audit of the Pension Fund accounts.**

6. **INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE PART I**
(Agenda Item 6)

Andrew Singh, Senior Investment Consultant with KPMG, presented a training item to the Committee which covered Roles and Responsibilities within the Pension Fund, a Recap of the Fund's Investment Strategy and the Fund's Asset Classes. The report focused on the investment of the Fund's assets and included an overview of fund performance as at 31 March 2018, an update on strategy decisions made in March 2018, sub funds available within the London CIV, recent voting and engagement.

The key objectives of the investment strategy were outlined and the Fund's asset allocation and managers were highlighted. Members were advised that the Actual Asset Allocation as at the end of June 2018 incorporated nine different classes including equity, property, diversified growth etc.

With regard to future plans, the Committee was advised that the Fund was required by regulation to move the assets to a pooled vehicle (such as the LCIV) over time. Benefits of this approach should include lower management fees and greater overall investment governance. In terms of the agreed evolution of the Investment Strategy, the plan was to:

- Reduce equity exposure, adjust regional weights and consider a 'resource efficient' or low carbon indexation;
- Increase exposure to long dated inflation-linked assets;
- Consider LCIV diversified credit options (recently launched);
- Consider options for maintaining strategic allocation to illiquid credit (LCIV recently launched a strategy).

Members commented that the content of the Investment Training item was both readable and digestible and provided a useful contextual background. They were informed that the training framework would be available in the Autumn of 2018.

Members requested clarification regarding the testing of the funding position evolution model and were advised that a team of people designed it and assessed it using hard data which was loaded onto a system and rolled forward using liability terms. The tool would not replace the actuary but was intended to give an indication and act as an early warning system.

The Pensions Committee Members were presented with a second report which considered the alternative approaches to implementing an allocation to long dated inflation-linked income. The Committee had previously reviewed the investment strategy and agreed to a strategic allocation of 5% to assets that provided a long dated income stream linked to inflation. KPMG had been asked to analyse the possible implementation options available for this allocation, noting a preference for new mandates to be accessed via the London Pension Collective Investment Vehicle (LCIV) if possible.

Members were informed that the LCIV did not currently offer a long dated inflation-linked income fund. However, they had indicated that they may be able to help access to an LLP fund in the short term although would not be on the platform; they planned to develop a long dated inflation-linked blend over the next few years. Details were unclear at this stage.

The Committee had also asked KPMG to identify the LLP funds which were best aligned with the Fund's requirements. KPMG had identified three funds which they believed could offer appropriate exposure. Members considered the queue length for each of these options; members suggested that a shorter queue length was a key benefit, members also discussed fund sizes and sector allocation

In terms of anticipated costs, Members were informed that investing in long lease property should be viewed as a medium to long term decision given the significant transaction costs involved (c.6-8%) and should be considered carefully. The bulk of the costs were payable upfront (stamp duty) and transition costs were uncertain but could be significant.

Three broad options were highlighted for the Committee to consider to implement an exposure to long dated inflation-linked assets. These were:-

- Option 1 - Hold the assets earmarked for the long dated inflation-linked income in index-linked gilts and await the launch of the LCIV inflation linked income fund (expected in 2 to 3 years). Members were advised that this option would provide inflation protection but a low return.
- Option 2a - Move forward with the LGIM LLP fund due to the potential link through the LCIV. There was a degree of uncertainty in selecting this course of action and it was noted the fund had a long queue and it is unclear if this product would be on the platform in the future which could result in further transition costs.
- Option 2b - Move forward outside of the LCIV Umbrella. This option would increase the choice of fund available and could enable faster deployment into the asset class by selecting a fund which had a shorter investment queue. This option would enable the fund to select the most suitable manager for the fund requirements to best meet fiduciary duty. However, this approach could potentially expose the Committee to criticism and/or reputational risk by progressing investment outside of the LCIV.

In terms of recommendations, KPMG suggested that the Committee consider moving the investment forward in the short term ahead of the LCIV making an inflation-linked income fund available. KPMG were of the opinion that the LGIM fund offered a compromise between the risk of investing outside of the LCIV and implementation of the Committee's strategic decision in the near term. Members were reminded that this option came at the cost of a longer queue time for investment than some of the other LLP funds available.

Members agreed that reputation was an important factor. However, it was vital to consider timings of LCIV offerings and to enable the Pension fund to achieve the best return to meet fiduciary duty to meet its funding strategy now. Members were informed that LGIM and BlackRock were larger concerns than the AEW. AEW's shorter queue could possibly be attributed to the fact that it was relatively new and a smaller concern, some of the members felt the short queue made this fund a viable option. Members were advised that LBH had been using the AEW for a number of years in another capacity and had been satisfied with their work.

It was suggested that officers be instructed to continue with the manager selection exercise including conducting due diligence around the three shortlisted managers before the next Committee.

In Part II of the agenda, the Committee received information on the current market update which covered both the current market climate and the performance of various investment vehicles, together with updates on Managers' reports.

RESOLVED:

- 1. That the Committee considered and discussed any issues raised in the training item;**
- 2. That the Committee discussed the Fund performance update;**
- 3. That the manager selection process continue including due diligence process associated with the Long Dated inflation-linked property fund for approval at the next committee;**
- 4. That the implementation of any decisions be delegated to the Officer and Advisor - Investment Strategy Group.**

7. ADMINISTRATION REPORT - JUNE 2018 (*Agenda Item 7*)

The Committee was provided with an update on the administration of the London Borough of Hillingdon Fund of the Local Government Pension Scheme, both in relation to Surrey, and internally at Hillingdon.

The Committee was informed that the Pension Administration system used by Surrey County Council as administrators of the fund included a task management system which allowed the progress of all case work to be managed and monitored on a daily basis. It was confirmed that Surrey County Council had continued to maintain and, in some areas, improve their performance against the reportable KPIs.

Members were advised that active members Annual Benefits Statements were now available on individuals' records, well before the original deadline of August 2018.. All LBH staff had been informed via the all staff email of the need to register onto the 'mypension' online. 29% of staff had now registered to use the 'mypension' facility. The Team Leader from Surrey CC and one of the internal team had attended the latest Schools' Forum meeting to discuss any issues arising from schools in relation to provision of pensions. Schools were offered the opportunity of requesting a site visit and, since April 2018, five schools had been visited.

Members enquired whether officers were satisfied with the progress made regarding schools and were informed that this was much improved and the main payroll provider for schools was now on-board.

RESOLVED:

1. That the information contained in the report be noted;
2. That the appointment of JLT to carry out GMP reconciliations work for the Fund be ratified.

8. **RISK MANAGEMENT REPORT** (*Agenda Item 8*)

The purpose of the report was to identify to the Pensions Committee the main risks to the Pension Fund and enable them to monitor these. There were currently seven significant risks which were being managed and reported on.

Members enquired about the cyber security risk element and were informed that this was being dealt with within the Council; however a large amount of data was held in Surrey. It was agreed that the matter of cyber security risk be covered in future reports.

RESOLVED:

1. That the Committee considered the Risk Register in terms of the approach, the specific risks identified and the measures being taken to mitigate those current risks;
2. That the Committee noted there were no risks rated as red;
3. That the matter of cyber security be included in the Risk Register going forward.

9. **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, updates on Managers' reports, an update of the London CIV.

RESOLVED: That the information be noted, together with the performance of Fund Managers.

10. **CONTRACT TENDER REPORT - PART II** (*Agenda Item 10*)

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 seeking authority to accept a tender to award the contract for Investment Consultancy Services and extend the existing contract for Actuarial Services to the London Borough of Hillingdon Pension Fund.

RESOLVED: That the recommendations as set out in the Part II report be agreed.

	The meeting, which commenced at 5.00 pm, closed at 6.13 pm.

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.