

Minutes

PENSIONS COMMITTEE

28 March 2018

Meeting held at Committee Room 3 - Civic Centre,
High Street, Uxbridge



	<p>Committee Members Present: Councillors Michael Markham (Vice-Chairman) Peter Davis Beulah East Tony Eginton Susan O'Brien (Reserve) (In place of Philip Corthorne)</p> <p>LBH Officers Present: Tunde Adekoya - Pension Fund Accountant Ken Chisholm - Corporate Pensions Manager Paul Whaymand - Corporate Director of Finance Sian Kunert - Head of Pensions Treasury and Statutory Accounts James Lake - Lead Corporate Accountant Neil Fraser – Democratic Services Officer</p> <p>Also Present: David O'Hara - Investment Advisor Scott Jamieson – Investment Advisor</p>
20.	<p>APOLOGIES FOR ABSENCE (<i>Agenda Item 1</i>)</p> <p>Apologies were received from Councillor Philip Corthorne. Councillor Susan O'Brien was present as his substitute.</p>
21.	<p>DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING (<i>Agenda Item 2</i>)</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 on the items.</p> <p>Councillor Susan O'Brien declared a Non-Pecuniary Interest in all agenda items as she was a "deferred" member of the Local Government Pension Scheme. She remained in the room during discussion on the items.</p>
22.	<p>MINUTES OF THE MEETING HELD ON 6 DECEMBER 2017 (<i>Agenda Item 3</i>)</p> <p>RESOLVED: That the minutes of the meeting held on 6 December 2017 be approved as a correct record.</p>

23.	<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 those items marked as Part I would be heard in public, and that items marked as Part II would be heard in private.</p>
24.	<p>INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE (PART I) (<i>Agenda Item 5</i>)</p> <p>Consideration was given to a report that provided Members with an overview of fund performance as at 31 December 2017, cash flow and expenditure summary for fund activity in the year, progress of the London CIV, regulatory updates and recent voting and engagement.</p> <p>The Committee was informed that the total size of the fund was £1,009m as at 31 December 2017, which was an increase of £31m from £978m at the end of the last quarter. This represented an overall investment return over the quarter of 3.08%, which was a relative underperformance of the benchmark by 0.44%.</p> <p>The Committee was presented with a draft Investment Strategy training presentation, which set out the current asset allocation and suggestions for changes to the strategy moving forward.</p> <p>The current asset allocation was confirmed to be well diversified, with the allocation exploiting long term investments, including Direct Lending, Infrastructure, and Private Equity; however with limited direct inflation protection. While there was some reliance on equity markets, the expected return was forecast to be above the Actuary's requirement.</p> <p>Consideration of the risks inherent to the current strategy resulted in the following proposed changes to the strategy:</p> <ol style="list-style-type: none"> 1. Introduction of Long Lease Property: Long dated, inflation linked, contractual income (a change of +5%) 2. Reduce Equity: Trim equity exposure to reduce overall risk. Review regional allocations and consider different global indices 3. Restructure Bond Portfolio: Expected return has reduced; recommended to redeploy in diversified credit portfolio/index linked gilts 4. Tidy: Trim DGF in favour of revised bond portfolio (Ruffer remains defensively positioned and heavily weighted to index linked gilts) <p>Regarding regional allocation, it was confirmed that the current allocation was significantly skewed towards UK Equities (>50% of allocation). While the UK was diversified, this exposed the Fund to specific concentration risks in terms of both sector and stock risk in relation to the market cap. To address this, the following changes were proposed:</p> <ol style="list-style-type: none"> 1. Fund the reduction in listed equities from the UBS portfolio (to reduce the equity exposure and UK bias) 2. Redeploy the LGIM UK regional equity allocation (9% of total assets) into a

developed marked cap

3. Move the US, Europe, Japan and Pacific overseas allocations with LGIM into a developed marked cap based fund

Private credit was currently underweight while the fund awaited committed funds to be deployed. It was suggested that the Council consider the London CIV's imminent launch of a Direct Lending strategy to increase/maintain allocation in the longer term. In addition, the London CIV was to launch a Diversified Credit Fund, which was recommended to be reviewed against JP Morgan in due course, although it was anticipated that this fund may have higher fees than the current fund.

The Committee approved the above changes, and agreed that the implementation of these changes be delegated to the Officer and Advisor Investment Strategy Group.

It was recommended that the Committee request that officers review the potential use of AEW – UK Real Return Fund, who targeted a gap in the market between long lease or balanced funds. KPMG Investment Advisory viewed AEW as advantageous in that, as they did not follow an index, they were free to find smaller assets in alternative, often overlooked sectors, which were undervalued and could be missed by traditional approaches. The Committee requested that officers investigate further on AEW and other offerings and put forward a recommendation on allocating the funds at a future meeting of the Committee.

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

RESOLVED:

1. That the Committee considered and discussed any issues raised in the training item;
2. That the Committee discussed and noted the performance update and agreed any required decisions in respect of mandates or Fund Managers;
3. That the implementation of strategic allocation weighting changes including bond restructure and regional allocations be delegated to the Officer and Advisor Investment Strategy Group;
4. That further detail on proposed allocation to long dated inflation linked property be brought to a future meeting of the Pensions Committee.

25. **ENVIRONMENTAL, SOCIAL & CORPORATE GOVERNANCE (PART I)** (*Agenda Item 6*)

Further to the report discussed at the Pensions Committee meeting on 6 December 2017, consideration was given to a report which provided details on fossil fuel impact from existing holdings.

It was confirmed that investments with a 'green spin' were niche, but were becoming more mainstream. The 'ideal' was to find synergy between maximising returns while acting in an environmentally friendly way.

Data from the Transition Pathway initiative had been reviewed, and details of

investment within Fossil Fuel sectors was set out in the report.

The Committee requested that officers continue to review available data to identify high quality, environmentally friendly investments that would maximise returns for the Fund.

In Part II of the agenda, the Committee received information on how the Council could profit from an environmental tilt to the current passive equity allocation.

RESOLVED:

- 1. That the report be considered;**
- 2. That officers continue to review the available data to identify high quality environmentally friendly investments that would maximise returns for the Fund.**

26. **PENSIONS ADMINISTRATION REPORT** (*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 Council's year-end process had commenced, and that while previous years had seen issues relating to providing data to Surrey, this year, data had already been submitted by Hillingdon and over 50% of the fund employers already. Annual Benefit Statements were expected to be released in June 2018, ahead of the deadline.

Since the rollout of the 'mypension' facility, 1,351 (16%) of active members had applied for and received their login details.

Regarding the merger of Harrow College with Uxbridge College in August 2017, Hillingdon Pension Fund had taken on responsibility for all LGPS members formally employed by Harrow College. This was cost neutral, with any deficit applicable to the College.

RESOLVED: That the information contained in the report be noted.

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

Consideration was given to a report providing details of the main risks to the Pension Fund, which enabled the Committee to monitor and review.

Reference was made to Risk PEN07, which was confirmed to have reduced, to reflect the lower likelihood due to the successful completion of the opt up in 2018. However, there remained an ongoing risk due to changes in Committee members and officers, which would require the status to be reviewed.

To help mitigate this risk, it was requested that officers convene a training course, and draft a training manual, for Members and officers following the forthcoming local election.

RESOLVED:

- 1. That the Committee considered the Risk Register and noted the measures**

which were being taken to mitigate the identified risks;

2. That officers convene a training course, and draft a training manual, for Members and officers following the forthcoming local election.

28. **INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE** (*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.

29. **ENVIRONMENTAL, SOCIAL & CORPORATE GOVERNANCE (ESG - 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 on how the Council could profit from an environmental tilt to the current passive equity allocation.

RESOLVED: That the information be noted.

The meeting, which commenced at 5.00 pm, closed at 6.17 pm.

These are the minutes of the above meeting. For more information on any of the resolutions please contact Neil Fraser on 01895 250692. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.