

Minutes

PENSIONS COMMITTEE

29 October 2018

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



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| | <p>Councillors Philip Corthorne (Chairman) Martin Goddard (Vice-Chairman) Teji Barnes Tony Eginton John Morse</p> <p>LBH Officers Present: Tunde Adekoya Paul Whaymand Ken Chisholm Sian Kunert James Lake Hayley Seabrook, Pensions Board Member Liz Penny - Democratic Services Officer</p> <p>Also Present: Dave Lyons, KPMG Representative Scott Jamieson - Investment Advisor Roger Hackett - Pensions Board Member Zak Muneer - Pensions Board Member</p> | |
| 11. | <p>APOLOGIES FOR ABSENCE (<i>Agenda Item 1</i>)</p> <p>There were no apologies for absence.</p> | |
| 12. | <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> | |
| 13. | <p>MINUTES OF THE MEETING DATED 18 JULY 2018 (<i>Agenda Item 3</i>)</p> <p>RESOLVED That: the minutes of the meeting on 18 July 2018 be approved as an accurate record.</p> | |

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| 14. | <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 the items marked Part I would be considered in public and those marked Part II would be considered in private.</p> | |
| 15. | <p>INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE PART 1 (<i>Agenda Item 5</i>)</p> <p>This item was preceded by a training item from KPMG on investing in infrastructure. Key points highlighted were as follows:-</p> <ul style="list-style-type: none"> • There were two main categories of infrastructure: economic and social. Economic infrastructure could be broken down into three types - throughput (e.g. roads), regulated (e.g. energy and utilities) and contracted (e.g. telecommunication assets). • Infrastructure assets were classified as brownfield or greenfield; brownfield assets were established and less risky while Greenfield assets were slightly more risky but usually offered a higher return. • Infrastructure assets were considered to be a good investment for the LGPS fund as they generally offered a long term and stable option. • Infrastructure projects were typically financed with a small element of equity capital and significant borrowing (debt). • The Fund currently employed Macquarie to invest in the equity of infrastructure projects. • There were eight key areas of risk. Councillors were advised that the Manager of the Fund needed to be mindful of political risk and operational risk and able to identify areas of good value. It was recommended that any commitment to this type of investment be proportionate - it could take time to identify appropriate areas for investment. • Members were informed that Infrastructure Equity offered an attractive long term return and a relatively high, stable and secure income. • With regards to Infrastructure Debt, a key risk of both senior and junior debt was credit risk (risk of default). The risks of both senior and junior debt were similar with the exception of Concentration risk which applied exclusively to senior debt. <p>Members requested clarification regarding the variation in risk relating to brownfield / greenfield assets and enquired as to how the additional risk associated with investing in greenfield assets could be compensated for. It was confirmed that greenfield and brownfield projects had different risk profiles but a reasonable premium would be sought if investing in greenfield assets.</p> <p>It was confirmed that the return of 2% / 3% cited in the report was a relative return. Members were referred to the management report which detailed the assets currently held and the returns on each.</p> | |

Councillors were informed that index-linked senior debt offered a lower margin of approximately -1.8% which was poor value; positive values would be expected as a minimum.

Members expressed concern regarding the security of investments in China. It was confirmed that total investment across America, India, China and Europe was minimal. Investment in China and India had been less profitable due to governance issues in those areas; however, it would be difficult to draw back said money as it had already been committed.

The Committee commented that the situation regarding Ruffer was an area of concern hence it was recommended that other options be explored. The nature of any potential offer from the LCIV was unknown at this stage and it was agreed that readily accessible investment options would be preferable. Immediate savings would be made in the move from Ruffer which would mitigate any transfer costs involved in such a move. It was reported that Members of the Pensions Board were supportive of the Committee's recommendations.

The Committee discussed the implementation of the allocation to long dated inflation linked property. The short listed funds were considered, as was a further delay in implementation of this asset allocation to consider waiting for the London CIV to provide an offering in this space. Due to the significant unknowns of what the LCIV would offer, or when, Members agreed it best carry out fiduciary duties in relation to management of the fund and implement the strategic asset allocation by awarding to Legal and General.

Members discussed ESG issues noted in the report and highlighted that climate change was a risk to the fund.

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

RESOLVED That the Committee:-

- 1. Considered and discussed the issues raised in the training item;**
- 2. Agreed to disinvest in Ruffer and bring alternative options for consideration to the next Pensions Committee;**
- 3. Agreed to award the Long-Dated inflation linked property mandate to Legal and General (LGIM);**
- 4. Agreed to delegate the implementation of any decisions to the Officer and Advisor - Investment Strategy Group.**

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

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

Members were informed that new appointments had been made to the

senior team in Surrey. Sian Kunert (Head of Pensions Treasury and Statutory Accounts) and Ken Chisholm (Corporate Pensions Manager) would be meeting the new members of staff in due course.

It was noted that there had been a few minor issues lately but Surrey had been quick to react when a problem was identified. Members were informed that all external scheme employers had been invited to "Meet the Actuary"; unfortunately attendance had been disappointing. Councillors were advised that the Council had not been informed of a proposal to increase charges in the light of increased security.

RESOLVED That: the Pensions Administration Report be noted.

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

The report aimed to identify the main risks to the Pension Fund and to enable Members to monitor and review these going forward.

Climate change was flagged up as an additional risk factor and it was suggested that this be included on the risk register. It was reported that the Cyber Security risk was low.

Members requested further clarification regarding risk factors 1) and 4) as detailed in the Pension Fund Risk Register 2018/19. It was agreed that Sian Kunert (Head of Pensions Treasury and Statutory Accounts) would review these and provide Councillors with a detailed response at the next meeting of the Pensions Committee in January 2019.

RESOLVED That:-

- 1. The Pensions Committee considered the Risk Register in terms of the approach, the specific risks identified and measures being taken to mitigate those current risks. It was noted that there were no risks currently rated as red.**
- 2. Sian Kunert (Head of Pensions Treasury and Statutory Accounts) review risk factors 1) and 4) and provide Councillors with a detailed update at the next meeting of the Pensions Committee in January 2019.**

18. **TRAINING UPDATE REPORT - OCTOBER 2018** (*Agenda Item 8*)

The report provided an update on training and development of Pensions Committee Members in line with the Training Policy approved by Pensions Committee in December 2015 and an update report to Committee in March 2017.

Gratitude was expressed to all Members who had attended training sessions; particularly the newly elected Councillors. It was noted that self-assessment and targeted training were beneficial and to be recommended.

Councillor Teji Barnes commented that she had attended an AON Training Day and had found it extremely useful.

Scott Jamieson, Investment Advisor, reported that he would no longer be involved with the Pensions Committee forthwith and stated that he had very much enjoyed working with Hillingdon Council. Thanks were extended to him for his commitment and hard work to date and the Committee wished him all the best for the future.

RESOLVED That:

- 1. The contents of the Training Update report be noted.**

19. **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

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

The meeting, which commenced at 5.00 pm, closed at 5.56 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.