

Minutes

PENSIONS COMMITTEE

20 March 2019

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



HILLINGDON
LONDON

	<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 Hayley Seabrook, Senior HR Operations Support Officer Sian Kunert, Head of Pensions, Treasury and Statutory Accounts Liz Penny, Democratic Services Officer</p> <p>Also Present: Andrew Singh, KPMG Representative</p>
29.	<p>APOLOGIES FOR ABSENCE (<i>Agenda Item 1</i>)</p> <p>Apologies for absence were received from Paul Whaymand (Corporate Director of Finance), Tony Noakes (Pensions Board Member), Zak Muneer (Pensions Board Member), Roger Hackett (Pensions Board Member) and James Lake (Lead Corporate Accountant)</p>
30.	<p>DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING (<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>
31.	<p>MINUTES OF THE MEETING - 21 JANUARY 2019 (<i>Agenda Item 3</i>)</p> <p>It was noted that Paul Whaymand's and Tunde Adekoya's names had been duplicated within the attendance section of the minutes dated 21 January 2019. It was agreed that this would be amended.</p> <p>RESOLVED That: the minutes of the meeting dated 21 January 2019 be approved</p>

as an accurate record, subject to the correction of the two duplicated names in the attendance section.

32. **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.

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

This item was preceded by a training item from KPMG on Inflation. Key points highlighted included:-

- Inflation was the rate of increase in prices for goods and services;
- The retail price index (RPI) and the consumer price index (CPI) were common measures of inflation within the UK;
- RPI and CPI measures were calculated using different methodologies;
- RPI had been gradually discredited as a suitable measure of inflation but continued to be used widely, mainly for legacy reasons;
- Many gilts were linked to RPI;
- Over recent years, RPI had been around 1% higher than CPI;
- Key drivers of RPI were housing, food and fuel;
- The bulk of the Hillingdon Fund's pension payments were linked to inflation measured by CPI;
- A spike in long-term inflation expectations would result in a sharp rise in the value placed on the Fund's liabilities;
- This was one of the biggest risks the Fund was exposed to;
- To combat risk, some asset classes provided a return profile which was directly linked to the level of inflation - these were inflation-linked bonds, long lease property and infrastructure;
- UK index-linked gilts provided a return directly linked to UK RPI. There were very few CPI-linked bonds;
- UK index-linked gilts provided a good hedge for UK pension funds;
- US Treasury Inflation-Protection Securities (TIPS) were an alternative option for inflation protection but provided a less efficient hedge against UK inflation which the Hillingdon Fund was exposed to.

Members requested clarification regarding the low return on investment in index-linked bonds. Andrew Singh, KPMG advisor, informed the Committee that there was a good rationale for holding gilts as they provided protection against inflation as a risk; it was important to have a balance and index-linked bonds were the 'ballast' in the asset allocation while equities and private credit drove the return.

Given that the US dollar was stronger than sterling at present, Councillors enquired whether investment in TIPS was really such a risk. It was explained that it was more expensive to hedge US TIPS back to UK currency.

It was agreed that Sian Kunert, Head of Pensions, Treasury and Statutory Accounts, would set up an online area where all KPMG training items would be stored together.

Consideration was given to the Investment Strategy and Fund Manager Performance

Report. It was confirmed that the total size of the Fund was now £1,044m. In response to Members' enquiries, it was confirmed that Ruffer had performed better in recent months; the situation would be reassessed in July 2019.

Committee Members commented on the statutory guidance regarding asset pooling in Pensions Funds. The steer was that Pensions Funds needed to accelerate investment into the pool. At present the Hillingdon Fund had a reasonable amount of flexibility but it was felt this would diminish as more funds were invested in the London CIV.

RESOLVED That the Committee:

- 1. Considered and discussed issues raised in the training item;**
- 2. Discussed the Fund performance update and agreed required decisions in respect of mandates or Fund Managers;**
- 3. Agreed to invest 5% of DGF allocation in UK IL bonds through LGIM passive portfolio;**
- 4. Deferred a decision on investment in the London CIV Infrastructure sub fund pending resolution of outstanding matters;**
- 5. Delegated the implementation of any decisions to the Officer and Advisor - Investment Strategy Group.**

34. **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 (SCC) and internally at Hillingdon.

Members were informed that there was positive news on the resourcing front; an interim Lead Pensions Manager had been recruited to help manage the contract. A breach was to be reported to the regulator as one member of the scheme had not received their pension on time. An investigation was underway to ascertain if there were any further cases like this; it was thought there could be a few other cases. This was a failing by Capita not Surrey County Council. It was vital that Surrey did not repeat the mistakes of Capita.

RESOLVED That: the report be noted.

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

Members drew attention to risk factor PEN 04 on page 34 of the agenda (Pay and price inflation significantly more than anticipated). It was suggested that the impact of this risk would be large rather than medium. It was acknowledged that this was misleading and needed to be separated out. It was agreed that risk ratings were a judgement only and were not an exact science.

RESOLVED That Pensions Committee:

- 1. Considered the Risk Register in terms of the approach, the specific risks identified and the measures being taken to mitigate those current risks. There were no risks currently rated as red.**

36. **STEWARDSHIP CODE REVIEW AND UPDATE** (*Agenda Item 8*)

The report provided an update on the revision of the UK Stewardship Code adherence by the London Borough of Hillingdon Pension Fund. Councillors were informed that the Financial Reporting Council (FRC) was consulting on a revised Code to encourage effective stewardship that operated in the interest of savers, companies, the economy, environment and society, reflected growing trends in investment and complemented recent and imminent regulatory changes. Once the changes had been finalised, Committee would be presented with a compliance review report for approval.

Members requested clarification regarding the extent to which the Committee was consulted about voting intentions. This was unclear at present. It was agreed that more information was required for due diligence; this would be discussed offline and considered at a later date.

It was noted that the fund was involved in stock lending. In response to Members' questions it was confirmed that 1% to 12% of assets with UBS could be loaned out; less than £30m. Such loans were highly collateralised and well-protected.

RESOLVED That: the contents of the paper be noted.

37. **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.

38. **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).

RESOLVED That: the report be noted.

The meeting, which commenced at 5.00 pm, closed at 5.55 pm.

to Councillors, Officers, the Press and Members of the Public.

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