

## Minutes

### PENSIONS COMMITTEE

29 January 2020

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



HILLINGDON  
LONDON

	<p><b>Committee Members Present:</b> Councillors Martin Goddard (Chairman) Philip Corthorne (Vice-Chairman) Teji Barnes Tony Eginton John Morse</p> <p><b>LBH Officers Present:</b> Tunde Adekoya, Pensions Fund Accountant James Lake, Chief Accountant Liz Penny, Democratic Services Officer Hayley Seabrook, Senior HR and Payroll Service Manager Yvonne Thompson-Hoyte, Interim Manager – Pension Fund / Pensions, Treasury and Statutory Accounts</p> <p><b>Also Present:</b> Roger Hackett, Pensions Board Member Zak Muneer, Pensions Board Member Tony Noakes, Pensions Board Member Clare Scott, Investment Advisor Andrew Singh, KPMG Representative</p>
30.	<p><b>APOLOGIES FOR ABSENCE</b> (<i>Agenda Item 1</i>)</p> <p>Apologies were received from Paul Whaymand, Corporate Director of Finance.</p>
31.	<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>
32.	<p><b>MINUTES OF THE MEETING DATED 30 OCTOBER 2019</b> (<i>Agenda Item 3</i>)</p> <p><b>RESOLVED That:</b> the minutes of the meeting dated 30 October 2019 be approved as an accurate record.</p>

33. **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 items marked Part I (items 1-12) would be considered in public and those marked Part II (item13) would be considered in private.

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

This item was preceded by a training session on Pension Fund Governance delivered by Andrew Singh of KPMG. Key points highlighted included:-

- The LGPS was the largest funded occupational pension scheme in the UK;
- It was administered locally through 90 local pension funds;
- The LGPS had a different legal status to trust based schemes in the private sector;
- Statutory guidance with respect to governance was issued by the Secretary of State;
- Three best practice principles ensured effective and efficient decision making;
- LBH was the administering authority (scheme manager) with legal responsibility for managing and maintaining its LGPS – there was a requirement to establish a body known as a Local Pension Board;
- The Local Government Pension Scheme Advisory Board, established in 2013, encouraged best practice and increased transparency;
- The role of the Pensions Board was to assist the Administering Authority in its role managing the Fund and ensure the Pensions Committee complied with the regulations;
- The Pensions Committee's role was to represent key stakeholder interests. It also had responsibility for decisions on the Fund's policy and strategy. The Committee had delegated authority to officers in a number of areas;
- The LCIV was an investment pool set up to manage the pooled assets of 32 London Local Authority Pension Funds, including Hillingdon;
- London Local Authority Pension Funds were required by regulation to invest via the pool if funds were available – the Hillingdon Fund had 58% of assets invested via the LCIV at present; the remaining assets were invested with third party asset managers;
- KPMG was an independent investment advisor to the Council;
- Key considerations for 2020 included exit credit legislation, responsible investment, competition and market authority, pooling, good governance review and McCloud legislation.

James Lake, Chief Accountant, presented the investment strategy and fund manager update. Members were informed the Fund was in a strong position with a total valuation of £1.127 bn; an increase of £31m, primarily through increases in equity values, from £1.096 bn at the end of the previous quarter. There was an overall investment return of +3.02% over the quarter, translating into 0.68% ahead of benchmark. The reported latest fund value as at 31 December 2019 was £1.122bn, refreshed to 1.126bn due to updated information ; a decrease of £5m, now £1bn in valuation compared to end of quarter under review. Figures as at 29 January 2020 were 1.121 bn; the slight reduction was attributed to current concerns in the market regarding Coronavirus. Longer term figures were positive indicating an increase of 7%-8% annually.

It was noted that investment performance continued to be suppressed by the underperformance of UBS UK Equity portfolio that delivered a return of -1.19% compared to the benchmark. In relation to Long Dated Inflation Linked Property, there was positive news – it was anticipated that 70% of the commitment would be drawn down by the end of February 2020. In response to Members’ requests for clarification, it was confirmed that the plan was to disinvest from LGIM & Ruffer to facilitate this re-investment. It was also confirmed that the reference to ‘recession’ on page 10 of the agenda pack was purely speculative.

James Lake also advised that the proposed removal of RPI as a measure of inflation from indexed linked gilts would be addressed as part of the strategic asset allocation as this was likely to impact on the Pensions Fund in the future. The Committee was informed that this matter would be discussed further in March 2020 with a view to reaching an outcome prior to the Government recess in July. It was possible that RPI would be aligned to CPI or an alternative thereafter. Further clarification was sought regarding the relative advantages of passive and active investments and whether active investments were preferable in a falling market. It was recognised that this was hard to predict; however, the Funds’ active managers – UBS and Epoch would be expected to provide defensiveness should markets fall. It was noted that the London LCIV was likely to launch a value equity product but this was currently on hold. Members were advised that concerns regarding the operation and governance of the London CIV would mean active mandates would need to be considered outside the LCIV which had led to the decision to consider passive options which would instead operate alongside the LCIV. It was acknowledged that the LCIV was currently undergoing a review of its governance and it was hoped that the situation would improve in the future.

The Committee observed that the Fund was investing quite heavily in UK rather than global equities at present. It was confirmed that this was primarily for historic reasons and the UK focus would be assessed as part of the strategy review..

Clare Scott, Investment Advisor, requested clarification regarding changing the duration of index-linked gilts and whether Committee approval was required for this as it was a change in the duration of an existing asset rather than a change in allocation. Members confirmed that powers had been delegated to officers in terms of allocations and durations within an asset classes . Officers were requested to continue to monitor said investment decisions and bring them back to Committee for consideration and noting.

**RESOLVED That Pensions Committee:**

- 1. Considered and discussed issues raised in the training item;**
- 2. Noted the Fund performance update.**

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

Yvonne Thompson-Hoyte, Interim Manager – Pension Fund / Pensions, Treasury and Statutory Accounts, presented the report which provided an update on the administration of the Fund, both in relation to Surrey County Council and internally at Hillingdon.

Members were informed that 4,793 members had now signed up to the Membership Self Service portal; this represented a slight increase of 777 on the last quarter but was a small proportion of total membership. Efforts were being made to increase this figure but it was a long, slow process.

Members noted that the Head of Pensions Administration at Surrey CC had resigned with effect from 10 January 2020 and enquired whether this was a cause for concern. The Committee was advised that the Assistant Director of Surrey CC had confirmed that interim measures were in place and a replacement was being actively sought. The situation would continue to be monitored closely.

Members enquired whether the figures for the last quarter to December 2019 were now available. It was confirmed that said figures had been received but had yet to be analysed. The Interim Manager of the Pension Fund would circulate these to Members in due course.

It was noted that the contract with Surrey CC was due for renewal in 2021.

The Pensions Committee agreed that James Lake, Chief Accountant, be named as the nominated officer in all Internal Disputes Resolution Policy Stage 1 appeals and as signatory for Death Grants.

**RESOLVED That:**

- 1. Pensions Committee noted the report;**
- 2. Pensions Committee agreed the proposed changes to the Internal Disputes Resolution Policy and Death Grant signatories.**

36. **DRAFT RISK MANAGEMENT REPORT** (*Agenda Item 7*)

Members' attention was drawn to two adjustments in relation to the Pension Fund Risk Register:-

- 1) PEN 07 related to concerns regarding the Outsourced Administrator. The Committee was informed that a meeting had been arranged for w/c 3 February 2020 to discuss service improvements. No deterioration in day-to-day service had been observed.
- 2) PEN13 was a new risk which related to the change in ownership / business model of KPMG. Members were advised that the current investment advisors to the fund had signed a conditional management buy out of the pensions advisory arm of the business. There would be a transition period during which staff and equipment would remain in the present location. The new company would be funded by a private equity fund. This change gave rise to some degree of uncertainty regarding the impact on the existing contract and the continuity of services. Members were reassured by KPMG that the new deal should be completed in 2-4 weeks and there would be no disruption to service. All 20 partners and 500 staff would transfer to the new business, which will be called Isio. Back office functions would be recruited to at a later stage. There would be a change to contractual documentation to reflect the new Company name. It was confirmed that David O'Hara would be an equity partner and would be remaining in the business.

**RESOLVED That:**

- 1) 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.**

37.	<p><b>ADMINISTRATION STRATEGY REVIEW</b> (<i>Agenda Item 8</i>)</p> <p>The amended Pension Fund Administration Strategy was presented to the Pensions Committee for approval. Two minor amendments were noted and agreed.</p> <p><b>RESOLVED That the Pensions Committee:</b></p> <ol style="list-style-type: none"> <li><b>1. Reviewed and approved the revised Pension Fund Administration Strategy;</b></li> <li><b>2. Delegated authority to officers to implement any minor alterations following Committee review.</b></li> </ol>
38.	<p><b>RESPONSIBLE INVESTMENT POLICY</b> (<i>Agenda Item 9</i>)</p> <p>The purpose of the report was to introduce the draft London Borough of Hillingdon Pension Fund Responsible Investment Policy (RI) to the Committee. The Responsible Investment Policy outlined how the LB Hillingdon Pension Fund would incorporate Environmental Social and Governance (ESG) considerations into investment decision making. The policy had been discussed with the Leader and passed to the Pensions Board for comments. A new paragraph had been added (page 13 of the agenda pack) at the request of Pensions Board members. It was confirmed that this latest version of the RI policy superseded all existing policies. The policy would be revisited regularly to ensure it was kept up-to-date.</p> <p>Members acknowledged that responsible investment was a challenging area to monitor. However, it was observed that, once their current challenges had been resolved, most investment would be via the CIV. It was anticipated that the LCIV would be capable of building up its capabilities in the ESG area in the future. Tunde Adekoya, Pension Fund Accountant, confirmed that all LBH Fund Managers had already signed up to the new policy. He would double-check this and confirm. James Lake, Chief Accountant, suggested that a brief update regarding responsible investment could be a standing agenda item for all future Pensions Committee meetings. Members welcomed this suggestion. It was also agreed that the policy would need to be reviewed at regular intervals; annually as a minimum.</p> <p>It was noted that many members of the Pension Fund were now taking a more active interest in Pensions investments. A climate motion had recently been approved at the Full Council meeting and it was vital that LBH was seen to be investing wisely.</p> <p><b>RESOLVED That Pensions Committee:</b></p> <ol style="list-style-type: none"> <li><b>1. Approved the Responsible Investment Policy included at Appendix 1;</b></li> <li><b>2. Requested that an item regarding responsible investment be included on all future Pensions Committee agendas.</b></li> </ol>
39.	<p><b>INVESTMENT CONSULTANCY SERVICES OBJECTIVES - REVISED</b> (<i>Agenda Item 10</i>)</p> <p>James Lake, Chief Accountant, presented the report. It was explained that, in order to be compliant with new regulations that came into force in December 2019, the Fund had to set strategic objectives for its appointed investment consultant – currently KPMG. The purpose of the report was to present the agreed objectives to the Pensions Committee along with the metrics for monitoring their effectiveness in meeting these objectives. Members noted the objectives and raised no concerns.</p>

	<p><b>RESOLVED That Pensions Committee:</b></p> <p>1. <b>Noted the objectives set for the Investment Consultancy Services provider, along with the indicators set out for performance measurement in the appendix.</b></p>
40.	<p><b>PENSION BOARD ANNUAL REPORT</b> (<i>Agenda Item 11</i>)</p> <p>The report had been compiled to provide feedback to Pensions Committee on the work undertaken by the Local Pension Board since the last report presented to Pensions Committee in January 2019. Roger Hackett, Pension Board Member, observed that the LBH Pensions Board and Pensions Committee worked extremely well together and had a good working relationship. Pensions Committee Members asked if a list of the dates of Pension Board meetings, together with meeting minutes, could be made available to them. Roger Hackett agreed to arrange this.</p> <p><b>RESOLVED That Pensions Committee noted the report.</b></p>
41.	<p><b>DRAFT WORK PROGRAMME 2020</b> (<i>Agenda Item 12</i>)</p> <p>It was noted that the October 2020 meeting date differed in the Work Programme (28<sup>th</sup>) / Programme of Meetings (29<sup>th</sup>). It was agreed that Wednesday 28 October was the preferred date. Democratic Services would update the Programme of Meetings accordingly and inform the Whips.</p> <p><b>RESOLVED That: the Draft Work Programme 2020 be noted.</b></p>
42.	<p><b>INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE PART II</b> (<i>Agenda Item 13</i>)</p> <p><i>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).</i></p> <p>The Committee received confidential information on the current market update which covered details of the current market climate and performance of various investment vehicles and updates on Managers' reports</p> <p><b>RESOLVED That Pensions Committee, following consideration of the Part II papers:</b></p> <p>1) <b>Noted the fund manager performance update and agreed any required decision in respect of mandates or Fund Managers;</b></p> <p>2) <b>Delegated the implementation of any decisions to the officers and Advisor – Investment Strategy Group.</b></p>
	<p>The meeting, which commenced at 5.00 pm, closed at 6.35 pm.</p>

These are the minutes of the above meeting. For more information on any of the

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