Pension Fund Committee

Minutes

23 November 2022

Present:

Chair:	Councillor David Ashton	
Councillors:	Nitin Parekh Norman Stevenson	Krishna Suresh
Independent Advisers:	Mr C Robertson	Independent Adviser
	Honorary Alderman R Romain	Independent Adviser
Apologies received:	Pamela Belgrave	GMB

15. Attendance by Reserve Members

RESOLVED: To note that there were no Reserve Members in attendance.

16. Declarations of Interest

RESOLVED:

To note that Councillor Norman Stevenson, a member of the Committee, declared a non-pecuniary interest in that he was a Director of Cathedral Independent Financial Planning Ltd., and that he had clients who were past and present members of the Harrow Pension Scheme. His wife was a member of Harrow Council's Pension Scheme. He would remain in the room whilst the matters were considered and voted upon.

17. Minutes

That the minutes of the meeting held on 12 October 2022, be taken as read and signed as a correct record.

18. Public Questions

RESOLVED: To note that no public questions were received at the meeting.

19. Petitions

RESOLVED: To note that no petitions were received at the meeting.

20. Deputations

RESOLVED: To note that no deputations were received at the meeting.

21. Performance Dashboard and Update on Regular Items

The Committee received a report of the Director of Finance, together with appendices 1-5 of which Appendices 3 and 4 were confidential, which set out

- Draft work programme on which the Committee's comments and agreement was requested.
- the investment and management performance dashboard report summarising key fund performance and risk indicators and PIRC Performance Indicators
- Fund performance to 30 September 2022
- Update on Pension Board.

The following amendments were made to the report and appendices:

- On page 9 of the agenda, Paragraph 16, 5th bullet point the Investment in Blackrock Sterling Liquidity (cash) fund was amended from £50 to £5m

- Appendix 1 on page 15 of the agenda, the LCIV Longview under 12 months was amended from -7% to +3.5%.

<u>The Draft Work Programme</u>

Members commented as follows:

Members requested an update on agreement at the previous meeting that new Members would benefit from training on risk and asset management.

An officer explained that arrangements had been made for Councillors David Ashton (Chair) and Suresh (Vice-Chair) to attend training and briefings organised by the following groups:

- London Pension Fund Officers Group, Westminster Council – London wide Member training
- A briefing by the London CIV - briefing for new Councillors on how the London CIV works

After these training sessions, officers will liaise with new Members of the committee to schedule further training. A Member advised that old Members could also benefit from the London CIV training. It was agreed that invitations should be extended to old members of the committee to attend the London CIV briefing.

<u>The investment and management performance dashboard</u>

Members commented as follows:

Members asked if the timing of the decision to rebalance agreed by the committee and ensuing transactions listed in paragraph 16 of the report had been beneficial.

The representative from AON explained that recent developments in the gilt and corporate fixed income markets had made them more attractive to investors in corporate bonds and, depending on the date of the investment, the real yields had become more attractive, though they had since fallen back to levels before the mini budget. Fixed income as an asset class had become more attractive as yields had risen and so it had been a good time to invest in them.

A member asked for clarification on the fall in the value of assets and the impact of currency hedging as detailed in paragraph 14 of the report.

An officer explained that the fund hedges 50 percent of its exposure to certain non-sterling currencies. The total value of currencies hedged was about £200 million. At the end of September, due to the timing of the settlements coming right in the middle of the turmoil following the abortive mini budget from the former Chancellor, the amounts that the Council had to settle by way of collateral increased by 50 percent within a week to almost £20 million. In consultation with AON, it was agreed that money should be withdrawn from gains made from equities held in those currencies to settle the demand for increased collateral in October 2022.

A member commented that the funding level at 116% was an improvement due to the value of the liabilities falling and asked as to what further change in the funding level was anticipated.

The representative from Hymans Robertson explained that the investments were in markets which could be volatile and as a result, funding levels may go up or down and there were no guarantees. The funding levels had not changed in the last 30-40 days and had remained at 116-120 percent. Funding levels would continue to be monitored.

A member questioned if the Council's liabilities had been affected by the increased interest rate.

The representative from Hymans Robertson responded that the Bank of England's increases in short term interest rates to lower inflation had led to an increase in gilt yields which lowered the value of the fund's liabilities.

RESOLVED: That**:**

1. the performance and investment dashboard report be considered be noted.

2. the draft work programme for the remainder of 2022-23 be approved.

22. Review of Pension Fund Risk Register

Members received the report which set out the results of the review of the Pension Fund Risk Register for the committee's consideration and comments.

The following were highlighted:

- A new risk arising from the fund becoming cash negative from April as a result of the combined impacts of the reduction in employer contribution rates and the expected rise in pensions payable due to inflation.

- The emergence of other red risks as a result of the state of the economy and the impact of these risks on asset valuation.

- These risks had to be tolerated but processes had been put in place to mitigate the worst impacts and these processes were under regular review.

Members commented as follows:

A Member questioned how the Council could deal with the cashflow issues raised in paragraph six of the report on page 30 of the agenda.

An officer explained that this could be done by understanding how to raise cash within the council's investment strategy. The majority of the investments were highly liquid and had daily or weekly dealing arrangements. This made it easy to access cash from the investments if needed. Therefore, firstly, cash could be produced by selling assets.

Secondly, within the London CIV there are options around the share classes. Currently the fund was invested in accumulating share classes, so dividends and interest received were reinvested. These could be switched to distributing share classes, producing cash on a regular basis, though with this method the returns would no longer be compounded.

Thirdly, the Council has investments designed to produce regular income over time. The renewables infrastructure fund should do this.

A Member asked if officers had any idea of the quantum of the future cashflow deficit.

An officer explained that he could do a quick calculation, but Hymans Robertson had been asked to perform a forward looking scientific cashflow projection stretching into the medium term which would feed into the review of the investment strategy commenced in the first quarter of the year. The aim was to work with colleagues to develop an appropriate strategy to mitigate the risk.

An independent adviser commented that the pooling information on Risk 9 as stated, in Appendix 2, page 39 of the agenda, should be updated to reflect recent changes such as:

- the committee no longer meets the managers once a year
- the officers no longer meet the managers twice a year,
- the London CIV now monitors the managers, and
- the committee now monitors the London CIV.

The adviser said that he would forward the relevant information to the officer after the meeting.

An independent adviser suggested that if agreed by Members, he felt it would be beneficial for officers to seek the minimum number of distribution units needed regarding Risk 13 as stated in Appendix 2 on page 40 of the agenda and continue to provide the growth through holding accumulation units.

An officer responded that to his understanding the Council could opt for either distributing or non-distributing units. The best way of applying what the adviser had suggested was to make specific cash drawdowns as needed and not go into distribution units. The Chair, Councillor David Ashton cautioned about making the risk register too prescriptive.

An independent adviser questioned about the likely impact of McCloud.

An officer explained that impact of Macleod had been assessed and factored into the triennial valuation for 2022 and hence into the contribution strategy. So, the Council was already prepared for the impact. The specific impact on the LBH fund meant that inevitably some people may get additional pensions.

An independent adviser asked what action would be prudent for the Council pending such a judgement.

The representative from Hymans Robertson explained that the impact of the proposed Macleod represents about two percent of the Fund’s liabilities, and this has been allowed for in the triennial valuation. The residual risk therefore has a small financial impact, but this remains an administrative nightmare.

RESOLVED: That the updated risk register be noted.

23. Taskforce on Climate-Related Financial Disclosures - Consultation

Members received the report which summarised the recently issued Government Consultation paper on Governance and Reporting of Climate Change Risks and contained a draft response.

The officer informed the committee that the consultation paper published in September 2022 sought views on proposals to require LGPS administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

Officers had in collaboration with colleagues and officers from other local authorities drafted a response attached as Appendix 1. The consultation deadline was the next day 24 November 2022 and members were requested to approve the response prior to submission.

RESOLVED: That:

1. the report be noted

2. the draft response as set out in Appendix 1 be approved for submission to DLUHC.

24. Triennial Valuation

Members received the report which provided the Committee with a draft Funding Strategy Statement (FSS) reflecting the results of the 2022 valuation and approval was requested to send this draft to stakeholders for consultation.

The draft FSS has been simplified, with key policies now being included as appendices. In particular these cover arrangements for a standard approach, for new contractors coming into the pension fund and for existing contractors leaving the fund at the end of their contracts or when they have no remaining active members. This approach will streamline administration of the pension aspects of those contracts

The new regulations enable the Council (as administering authority) to consider deferred debt arrangements for contractors leaving the Fund. This option though an additional risk, meant more flexibility around debt collection. Appropriate measures will be put in place to manage this risk, including consideration of a requirement for security to be in place for contractors with deferred debt arrangements.

After consultation, the funding strategy would be presented to the next meeting of the committee for final approval.

The Chair thanked the Hymans Robertson representative for the report.

A Member suggested that on page 13, supplemental agenda, that Responsible Investment should be mentioned in the second bullet under 1.2.

A member asked for further explanation about the contribution rate as detailed in the third paragraph of 2.3, on page 16 of the Supplemental agenda.

The Hymans representative explained that the contribution from the Council was discussed at the last meeting of the committee. It was 23.5% and the Council's budgeting practice is to split it so that part is expressed as a percentage (16%) and the other part is converted to a £ amount. This was one of the ways Section 151 managed the finances of the fund. The final £ amount was still being worked out.

A member asked for further explanation of the impact on contributions of early retirement on ill health grounds. The representative explained that early retirement due to ill health impacts through the loss of contributions and early payment of pensions with enhancement. If the numbers of ill health retirements (as a proportion of active members) was significant, this could lead to a rapid increase of the contribution rate, hence insurance had been offered as a precautionary option. The officer explained that the insurance scheme was more appropriate for the small employers in the Fund. The Council as a large employer would not be heavily affected by an occasional ill-health retirement.

Another Member asked for further explanation about pass through agreements. The representative explained that the movement of employees from the Council to a contractor also moved their pension liability to the contractor who may be advised of an increased charge for the additional risk.

RESOLVED: That:

1. the draft Funding Strategy Statement be approved.
2. the proposals for consultation with employers and other stakeholders as set out in paragraph 6 of the report be endorsed.

25. Draft Responsible Investment Policy

Members received an introduction to the report from an officer who explained that following the workshop on 12 October 2022, it was agreed that Aon would carry out a survey of the Committee members' investment beliefs (from an RI perspective) and would use these to draw up a Responsible Investment Policy for the Committee to consider and approve.

A representative from Aon presented the survey findings and the contents of the proposed policy.

She informed members that following completion of the survey by three Members of the Committee, Aon had reviewed the responses provided and produced the following summary of the key views expressed by the Committee:

- Environmental, social and governance (ESG) factors were **financially material**; taking them into account was **consistent with the Committee's fiduciary duty** to members of the Fund.

- The Fund was a **long-term investor**, and the Committee would invest in a manner that was consistent with that long-term outlook.

- Taking ESG considerations into account may lead to **better risk-adjusted returns**, and it was therefore important that the Fund's appointed managers incorporate these matters into their decision making on asset selection, realisation, and retention.

- While risk and return considerations were important, Members believed that **the fund managers' approach to engagement and stewardship of assets** was a relevant factor in decision-making.

- Members would consider investments which sought to deliver positive impacts on societal/environmental issues, as well as those which integrated ESG risk and opportunities, or 'tilted' towards certain investments.

- **Climate change is a key risk factor** to the Fund. This risk should be assessed and understood in order to protect the Fund and capture opportunities arising as a result of the transition over time to a low-carbon economy. However, you also believe that issues of social justice and broader consideration of nature-related outcomes are relevant to decision-making.

- Acting as responsible stewards of capital is important, and the Committee believed in the **value of engagement**. To that end, the Committee expects that the Fund's voting rights are exercised to the fullest extent possible, and that the Fund's managers will actively engage with underlying assets to encourage continued development of sustainable business practices, transparency, and inform their decision making on investment selection, realisation, and retention.

The policy outlined important procedures to follow in committee decision making, ESG risk monitoring and assessment, expectations and monitoring of investment managers, implementation, and training to ensure the investment strategy is aligned with the council's beliefs and principles toward RI.

The policy also covered these areas:

- Stewardship – voting and engagement
- Initiatives and industry collaboration
- Evolving the approach
- Disclosure and reporting

Councillor David Ashton, the Chair of the committee expressed confusion and concern at the number of survey responses received. As Members confirmed that they had all responded to the survey and since it was anonymous, there was no way of finding out what had happened.

He further explained that due to the low level of response, the survey results though informative were statistically challenging as it was difficult to draw a clear conclusion from a small sample size.

An Advisor expressed concern that some sections of the draft policy were easy to understand and implement such as the section on stewardship on page 62, of the Supplemental Agenda but the section on Environmental and Social Governance (ESG) was confusing. He expressed a preference for a brief, clear, simple, and understandable policy.

It was proposed that a Word version of the policy be circulated to Members for their input and presented back to the committee for further comments.

The Chair explained that the committee was not rejecting the draft policy but rather commencing a sensible process of input.

RESOLVED: That:

1. the draft Responsible Investment Policy (RI) be noted.

2. a Word version of the draft policy be circulated to Members for comments.

3. the amended copy of the draft policy be presented to the committee for further consideration.

26. Any Other Urgent Business

There was none.

27. Exclusion of the Press Public

RESOLVED: That in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following item(s) for the reasons set out below:

Item	Title	Reason
28.	Performance Dashboard and Update on Regular Items - Appendices	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
29.	LaSalle Property of Funds	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including

the authority holding that information).

28. Performance Dashboard and Update on Regular items

Members received confidential Appendix 3 from Aon and confidential Appendix 4 from an Independent Adviser. These appendices set out views on the fund's investment managers and a ratings summary. They included performance information that had been obtained from the London CIV or directly from the managers themselves rather than from PIRC.

RESOLVED: That the information in the confidential appendix be noted.

29. LaSalle Property Fund of Funds

The Committee received a verbal update regarding the Fund's property investment in the La Salle Fund of Funds.

Members discussed the update and additional analysis from Aon.

RESOLVED: That the verbal update be noted.

(Note: The meeting, having commenced at 6.30pm, closed at 8.38pm)

(Signed) Councillor David Ashton
Chair