

Pension Fund Committee

Minutes

25 November 2020

Present:

Chair: Councillor Keith Ferry

Councillors: Dean Gilligan Bharat Thakker
Norman Stevenson

**Co-optee
(Non-voting):** Howard Bluston

**Independent
Advisers:** Mr C Robertson Independent Adviser
Honorary Alderman R Romain Independent Adviser

Absent: Pamela Belgrave GMB
John Royle

119. Welcome

The Chair welcomed everyone to the virtual Pension Fund Committee meeting and made some general announcements. He also stated that prior to the meeting, Committee Members attended a training session in which officers of the London CIV gave a presentation and answered questions regarding their current available investments and work in progress to increase these.

120. Attendance by Reserve Members

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

121. Declarations of Interest

RESOLVED: To note that

- (1) the Declarations of Interests published in advance of the meeting on the Council's website be taken as read;
- (2) Councillor Norman Stevenson declared a non-pecuniary interest in that he was Director of Cathedral Independent Financial Planning Ltd. and had clients who were existing contributing members, deferred members and pensioner members. On occasions, his company invested clients' funds with providers also used by the LGPS. In addition, Councillor Stevenson declared that his wife was an employee of Harrow Council and a member of the LGPS. He would remain in the virtual meeting whilst the items were considered.

122. Minutes

RESOLVED: That the minutes of the meeting held on 9 September 2020 be taken as read and signed as a correct record.

123. Public Questions

RESOLVED: To note that no public questions had been received.

124. Petitions

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

125. Deputations

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

Resolved Items

126. Membership of Pension Fund Committee

Having expressed their gratitude for his time and commitment over the years, the Committee

RESOLVED: To note that John Royle (Unison) had stepped down from the Pension Fund Committee, thereby opening a vacancy for the position of a Trade Union Observer.

127. Pension Fund Annual Report and Accounts 2019-20 - Outcome of 2019-20 Audit

The Committee received the Pension Fund Annual Report and Accounts for 2019-20 and Outcome of Audit for 2019-20, which outlined the auditor's findings arising from the Pension Fund 2019-20 audit of accounts.

Officers reported that the audit was nearly completed and was expected to be signed off in time for the statutory deadline on 30 November 2020.

Minor amendments had been made to the report, listed in the Appendix, which evidenced the high standards to which the report was prepared. The Committee expressed its gratitude to the officers involved in preparing the Accounts.

The Committee was informed that the update on significant findings had already been presented to the Council's Governance, Audit, Risk Management and Standards Committee and was reflected in the revised Accounts.

Responding to a question on assets held by the Fund and stock lending, officers agreed to provide a written response to the Committee after the meeting.

RESOLVED: That

- (1) the report be noted;
- (2) the audited Pension Fund Annual Report and Accounts 2019- 20 be approved;
- (3) the Director of Finance and Assurance be authorised to sign off and make any final amendments to the Pension Fund Annual Report 2019-20 arising from the external audit prior to the signing by the auditor.

128. Regulatory Update

The Committee received an update report outlining several recent and proposed changes which would have a significant impact on the Local Government Pensions Scheme (LGPS) and the workload of the Pensions Administration Team.

In the discussion which followed, the Interim Pensions Consultant reported that the Government was in the process of amending the Local Government Pension Scheme (LGPS) Regulations, with a number of key changes planned. In particular, it was noted that the Restriction of Public Sector Exit Payments Regulations 2020 which came into force on 4 November 2020, limiting "exit payments" to £95,000 were in conflict with the current LGPS Regulations, which stated that if an active member aged 55 or over was made redundant, they had immediate unreduced access to their pension. This was problematic because unlike most other public sector funds, the LGPS was funded, and therefore any early payment of pension gave rise to "strain costs" to be met by the employer to offset the cost to the pension fund of pensions being paid early.

The Committee heard that until the changes to the LGPS Regulations were approved, any member aged 55 or over who was made redundant and breached the £95k exit payment cap would be offered an actuarially reduced or deferred pension. The updated Regulations were expected to have a significant and unintended impact on some lower earning staff and could result in a number of legal challenges.

A consultation on the Regulations was currently under way, with the final amendments not expected to be approved until early 2021.

Having considered the report and officer's responses, the Committee

RESOLVED: That

- (1) until the LGPS Regulations 2013 ('the Regulations') were amended, where a member aged 55 or over was made redundant and the £95k exit payment cap would be breached by reason of the payment of pension strain, the following mitigation measures be agreed to be offered to the member:
 - a. an actuarially reduced pension under Regulation 30(5) of the Regulations; or
 - b. a deferred pension under Regulation 6 of the Regulations.
- (2) the draft actuarial factors issued by the Government Actuary Department be agreed to be used in the calculation of pension strain unless and until different factors were issued;
- (3) the implications of the McCloud/Sargeant and Goodwin judgements be noted;
- (4) the implications of the new Employer Flexibilities be noted.

129. Review of Risk Register

The Committee received a report, setting out the updated Pension Fund risk register.

By way of introduction, the Interim Pensions Consultant drew members attention to the recent changes to the Fund's risk register. He reported that whilst the Council's standard methodology for recording and scoring risk had been preserved, the format of the Register itself had been modified, allowing higher risks to be moved into a separate list and by doing so enhancing their monitoring and prioritisation. The updated Register also included a number of new risks, in particular those arising from the recent regulatory conflict and the impact of the McCloud/Sargent court judgement. The review had also identified a significant number of operational risks which were adequately managed through "business as usual" processes and as a result their removal from the Register was proposed.

Members welcomed the report and the changes to the Risk Register. No further questions or comments were raised.

RESOLVED: That the report be noted and the revised format to the risk register, set out at Appendices 2 and 3 to the report, be approved.

130. Performance and Valuation - Regular Update

Members received a report, which summarised the position of the Fund as at 30th September 2020 on a number of areas including the investments held in the fund and the investment management performance and set out a proposed work programme for the Committee for the remainder of 2020-21.

The Interim Pensions Consultant introduced the report and drew Members' attention to the Aon Performance Dashboard for the period up to 30th September 2020 (at Appendix 1), which reported a funding levels at 89.3% due to a minor increase in asset values and a minor fall in the value of liabilities over the quarter. The Fund was valued at £895 million, but the value had moved significantly over the recent weeks as equity markets had been volatile. He added that if Members wished to discuss any of the exempt information set out in the confidential appendices 3 and 4, the Committee would need to move into a private session.

Responding to comments on data provided by PIRC, officers undertook to review the accuracy of some of the numbers and updated Members following the meeting.

It was also agreed that a training session by Record Currency Management focusing on currency hedging of the Pension Fund's equity portfolio be held before the next Pension Fund Committee meeting on 24 March 2021.

RESOLVED: That the report be noted.

131. 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 items for the reasons set out below:

Agenda Item No	Title	Description of Exempt Information
14.	Performance and Valuation – Regular Update – Appendix 3 and 4	Information under paragraph 3 - contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
15.	Investment Strategy Update	Information under paragraph 3 - contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

132. Performance and Valuation - Regular Update

[See Minute 130 above.]

133. Investment Strategy Update

Prior to the consideration of this item, the Committee resolved to move into a virtual private session for the discussion and decision-making relating to this item.

The Committee received a confidential report and accompanying appendices, updating Members on the Pension Fund's Investment Strategy Review and proposing key actions to progress the review.

The report focussed on the fund's equity investments, which had a strategic benchmark of 50% of the fund's assets. The equity portfolio was allocated to a number of managers with different investment styles and geographical market exposures as this diversification helped in managing investment risk.

In the discussion which followed, Members had an opportunity to comment on the report and raised a number of questions relating to the Fund's equity portfolio and proposed changes to its management.

It was noted that value investing has consistently yielded poor returns since 2008, and the fund's value style manager, Oldfield, had performed poorly within the "universe" of value managers. It was therefore decided to work towards replacing this with an investment in the London CIV's Sustainable Equity Fund (managed by RBC) which would improve the fund's positioning in regard to the Council's stated policy on climate change, while maintaining an appropriate diversification of style from the other equity managers and improving risk adjusted return prospects.

It was also noted that there had been some concerns about Longview's performance and changes in their key personnel, but it was nevertheless appropriate to retain Longview and to continue to monitor them closely.

To evolve the fund's passive equity portfolio, and consider its position in the context of the Council's policy on climate change, it was agreed that officers and Aon would explore the possible low carbon passive options available within the London CIV's arrangements with the current passive manager, Blackrock.

Taking into account the uncertainties in global economies, it was considered appropriate to retain the current arrangements for hedging against the risk of currency fluctuations.

Having noted their importance to the Fund's investment strategy, it was agreed that an item to review equity holdings be added as a regular item to the agenda for future Committee meetings.

The Committee also noted the London CIV's proposals to review the MAC Fund, and some concerns regarding its property manager, LaSalle, and accordingly agreed that the risk control and diversifying return assets would be reviewed at the next meeting.

RESOLVED: That

- (1) the Redemption of the Fund's equity investments held with Oldfield be approved and officers authorised to progress the matter further;
- (2) the Investment of the proceeds from this redemption in the London CIV Sustainable Equity Fund be approved and officers authorised to progress the matter further;
- (3) the current ongoing concerns shared by Aon and the London CIV in regard to Longview and that officers would continue to liaise with Aon in order to monitor this position, be noted;
- (4) the retention of the currency hedging mandate with Record and closer engagement to improve the Fund's understanding of the managers' activity, be approved;
- (5) that based upon the position at 30 September 2020, no rebalancing was required, but officers, in conjunction with Aon, be authorised to consider and take action should the 31 October 2020 position indicate that this be appropriate;
- (6) officers and Aon be authorised to explore further with Blackrock the Low Carbon Passive equity options available within the London CIV's passive equity fee arrangements;
- (7) officers and Aon be authorised to liaise further with LPPI, Berkshire and other investors in the LaSalle Property Fund of Funds to determine possible options for its future;
- (8) that consideration of the Fund's diversifying return and risk control assets at the next stage of the Investment Strategy Review, be agreed.

(Note: The meeting, having commenced at 6.30 pm, closed at 7.52 pm).

(Signed) Councillor Keith Ferry
Chair