

Pension Fund Committee

Minutes

23 November 2022

Present:

Chair: Councillor David Ashton

Councillors: Nitin Parekh Krishna Suresh
Norman Stevenson

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

RESOLVED: 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.

Resolved Items

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 Appendix 4 was 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.

The Draft Work Programme

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 trainings and briefings organised by the following groups:

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

After these training sessions, officers will liaise with relevant 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 LCIV briefing.

The investment and management performance dashboard

Members commented as follows:

Members asked if the timing of the decision of the rebalancing agreed by the committee and ensuing transactions listed in paragraph 16 of the report had helped.

The representative AON explained that recent developments in the gilt and 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 been attractive, though they had since fallen back to levels before the mini budget. Fixed income as a class had become more attractive recently as yields had risen. It was a good time to invest in them.

A member asked for clarification on the fall in the value of assets and the mitigating transactions 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 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 claim in October 2022.

A member commented that the funding level at 116 percent was a temporary improvement from liabilities and asked if any further changes to the funding level was anticipated.

The representative from Hyman Robertson explained that the investments were in risky markets and as a result, funding levels may go down but 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 be monitored in the long term and kept above 100 for a long time.

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

The representative from Hyman Robertson responded inflation expectations over a long term were coming down and all the benefits linked to inflation were lowering the Council'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 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 would be under regular review.

Members commented as follows:

A Member questioned how the Council could outweigh the deficiencies listed 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. Majority of the investments were highly liquid and had daily or weekly dealing arrangements. This made it easy to access cash from the investment if needed. Firstly, cash could be managed through the strategy by rebalancing as was done recently.

Secondly, within the London CIV there are options around the shared classes, currently the Council was in accumulating share classes, so dividends and interests were reinvested. This could be switched to redistributing share class though with this method, the returns would no longer be compounded.

Thirdly, the Council could overtime have investments designed to produce regular income. The renewable infrastructure should do this.

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

An officer explained that he could do a quick calculation, but Hyman Robertson had been asked to perform a forward looking scientific cashflow projection leading into the medium term to feed into the review of the investment strategy commenced in the first quarter of the year and 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 suggested that he would forward the relevant information to the officer and clerk after the meeting.

An independent adviser suggested that if agreed by Members, he felt it would be beneficial for officers to seek the minimum distribution units needed regarding Risk 13 as stated in Appendix 2 on page 40 of the agenda and continue to provide the engine growth by 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. 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 the 2022 and hence into the contribution strategy. So, the Council was already aligned 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 Hyman Robertson explained that, funds, about two percent of the liabilities had been set aside to cover the risk. It was a tiny impact and an administration 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 reflecting the results of the 2022 valuation and requested approval to send this draft to consultation with stakeholders

At the end in the last three years, that's been optional move out a default approach, suggested in the current funding strategy that would have new contractors coming into the pension fund, that make for easy administration of contracts

The new regulations had option that the Council could explore such as deferred spending arrangements. This option though an additional risk, meant more flexibility around debt collection. Measures will be put to manage the risk. The requirement for security could also be introduced for deferred debt arrangements.

The funding strategy would be presented to the committee for final approval.

The Chair thanked AON representative for the report.

A Member suggested that on page 13, supplemental agenda, that

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 representative explained that the contribution from the Council was discussed at the last meeting of the committee. It was 23.5% and according to the Council's budgeting practice is to split it up. Part would be in percentage and the other part will be converted to a £ amount. The £ amount would be recharged to a different fund than the %pay. This was one of the ways Section 151 managed the finances of the fund. The final £ amount was still being worked out. There was some uncertainty due to budget cuts.

A member asked for further explanation impact of early retirement on health grounds. on contribution. The Representative explained that early retirement due to ill health was treated as retirement which would lead to a rapid increase of the contribution rates and as pension schemes were not compensated for this, insurance had been advised 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 an occasional ill-health retirement.

Another Member asked for further explanations about passthrough 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 to 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 he 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 to use these to draw up a Responsible Investment Policy for the Committee to consider and approve.

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

She informed members that following completion of the survey by the majority of Committee members, Aon have 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 and comments.

26. 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:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
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)).

27. Performance Dashboard and Update on Regular items

Members received confidential Appendix 4 from Aon and an Independent Adviser. The appendix set out its views on the Council's investment managers and a ratings summary. It 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.

28. LaSalle Property Fund of Funds

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

The update was in response to the committee's resolution regarding the funds at the last meeting.

Members discussed the update and additional analysis from Aon.

RESOLVED: That the update be noted.

(Note: The meeting, having commenced at 6.30 pm, closed at 8.28 pm).

(Signed) Councillor David Ashton
Chair