

Pension Fund Committee Moved from 21 June 2023

Minutes

31 July 2023

Present:

Chair: Councillor David Ashton

Councillors: Jerry Miles Nitin Parekh

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

**Apologies
received:** Councillor Norman Stevenson Portfolio Holder for
Business, Employment &
Property

Absent: Pamela Belgrave GMB
John Royle UNISON

1. Attendance by Reserve Members

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

Colin Cartwright of Aon informed the meeting that his colleague, Max Meikle, had resigned from Aon. The Chair asked for the Committee's thanks for his contributions to the Committee to be passed on along with best wishes for his future endeavours.

2. **Declarations of Interest**

RESOLVED: To note that no declaration of interests were made at the meeting.

3. **Appointment of Vice-Chair**

RESOLVED: Councillor Nitin Parekh be appointed Vice-Chair of the Committee for the 2023/24 Municipal Year.

4. **Minutes**

That the minutes of the meeting held on 29 March 2023, be taken as read and signed as a correct record.

5. **Public Questions**

RESOLVED: To note that no Public Questions were received.

6. **Petitions**

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

7. **Deputations**

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

8. **Performance Update on Regular Items**

Members received an introduction to the report of the Director of Finance and Assurance which gave the following highlights.

As at 31 March 2023, the overall value of the fund had increased by £27m to £955m over the quarter. The fund underperformed the benchmark by 0.5% over the quarter, returning 2.8% against the benchmark return of 3.4%. For the 12 months to end of March, the fund underperformed the benchmark by 0.4 %, reducing the value of the fund over the year by £63m. By the end of June, despite the volatility experienced in markets, the fund value had appreciated to £969m.

An officer informed the Committee that the Pension Board had reviewed the risk register and governance compliance statement at their last meeting. Officers had hoped that the Annual Report and Accounts for 2021-22 could be concluded in July, but issues were raised following the triennial valuation as the auditor's test of the membership data had highlighted issues with 3 out of a random sample of 14 accounting items.

The officer said that the results of the McCloud and Pooling Consultations had been received and the Committee would be updated via a briefing note in future on what further actions were being taken by other funds.

Members asked the following questions:

The Chair expressed concerns that 3 out of 14 represented a high percentage of the sample and asked if the Acting Director of Finance was aware of the situation and how it would be resolved. The officer gave further explanations and confirmed that the Acting Director of Finance had been informed. Mazars had advised that the valuation should be rerun but the Fund's Actuary was of the view that the same issue was being experienced by other funds and could be sorted out by the accounting department. Officers were awaiting further updates from the Fund's actuary. The Chair requested that the Members of the Committee and Advisers be updated on the situation as this was unsatisfactory.

The Chair asked the Aon representative why inflation was shown at 3.6% in Aon's report. The Aon representative explained that this was a 20 year long term inflation rate estimate and was forward-looking and derived from financial market data.

A Member asked if the members of the pension fund were given any valuation information along with their P60. The officer was uncertain and said that she had suggested to the Pension Board that an Annual General Meeting (AGM) could be scheduled online, and members of the fund could be given an update on the value of the fund on that occasion.

The Chair asked the Aon representative for his view on the PIRC ranking on page 36 of the agenda. The Aon representative said that while it was very disappointing, what was more important was how the fund performed versus the strategic benchmark. This defined what the Committee was trying to achieve in the longer term. Over shorter periods of time, performance versus the peer group could be very different, depending on how similar other funds' strategic benchmarks were..

He was of the view that at a high level the Fund was doing well in as much as the funding level was healthy and so in that regard, the Fund was in a good place. However, there were areas that needed addressing, in particular the delay in tackling the issue of underperforming managers which had been a very significant cause of underperformance in the past. Implementing the strategy changes discussed at the training session a few weeks ago should also help future performance. The Chair commented that it could have been better and the Aon representative agreed.

An Independent Adviser commented that the PIRC sample size had reduced again from 63 to 45 and was becoming less representative of the Local Government Pension Scheme (LGPS) which consisted of over 80 funds in England. He was concerned that PIRC's increasingly small percentage representation would become self-fulfilling and would not recover. The Aon representative agreed and said that the relative ranking was less important to people as they tended to compare how they were doing versus their own

strategic benchmark and that was one reason why fewer funds were participating in the PIRC survey . He added that as more of the underlying funds were moved to the London CIV and other pools, measuring the performance of the underlying fund managers would become less relevant for the LGPS funds and more relevant for the pools.

An Independent Adviser commented on his previously raised concerns about inaccuracies in PIRC's headline numbers and analysis and suggested that he could resend the information to the officer. The officer explained that Northern Trust had been approached to provide performance measurement services for the Fund and depending on the Council's procurement process, that could commence within six months.

The Chair asked about what was being done regarding peer group performance measurement. The Officer explained that alternatives were being explored. The alternatives may not be able to provide ranking information, but the annual ranking information could be obtained from PIRC as the fund's subscription would be maintained.

On the Committee's Work Programme, the officer explained that depending on the response from the Fund's Actuary, in addition to already scheduled reports, the Annual Report may be presented at the meeting of the Committee in September but if it was still not concluded by then, it would be on the agenda for the meeting in November.

An Independent Adviser asked why the usual training session before the meeting had not been organised. The officer responded that the previous Interim Pensions Manager had felt that it was not required on this occasion but she would ensure they were scheduled for every meeting going forwards.

A discussion on the organisation of a Meet the Manager's Day (MDD) in October ensued. It was agreed that session topics and invitees to the MDD would be agreed at the end of the meeting and potential dates would be circulated to Members of the Committee thereafter.

Mansion House Speech

The Aon representative gave an update on the highlights of the Chancellor of the Exchequer's Speech at the Mansion House Dinner and on the consultation areas outlined by the Department of Levelling up, Housing and Communities. (DLUHC).

The Chancellor had focussed on:

- the consolidation of pension schemes as there were too many small schemes and the consolidation of these schemes to form bigger pension schemes would result in better member outcomes.
- the acceleration and expansion of pooling within LGPS. All assets were to be invested into the pools by 2025 (especially liquid assets) and the minimum value of each investment pool should be £50bn. Currently 2

out of the 8 pools (London CIV and Wales) would be unable to achieve this threshold).

- The issues involved in bringing passive funds managed outside the pools into the pools was raised. This is relevant for the Fund's passive investments managed by BlackRock.
- Funds were expected to invest 5% of their assets in supporting UK levelling up. A detailed plan to achieve this should be set out. In the case of the London CIV, this could include investing in the London Fund.
- Funds were also expected to invest in venture capital type assets and exploration of partnerships with British Investment Bank were encouraged.

A Member asked if the expectation to have all funds including passive funds in pools by 2025 would affect the committee's decisions in the short term. The Aon representative said it would as from a governance perspective the Committee would have to decide what to do with existing managers outside of the London CIV, taking into account whether suitable alternative managers were likely to be available on the London CIV.

An Independent Adviser commented on the Mansion House speech, including pointing out that the proposals ignored the fact that UK pension funds generally invested in asset classes such as venture capital on a global, not a UK, basis. It was agreed that he would share the commentary he had written on the speech with Members.

The consultation which would conclude on 2 October 2023, would cover the following five areas:

- Acceleration and expansion of pooling - all assets into the pools by 2025 and each investment pool to be £50bn+ which would very likely mean pool consolidation;
- Expectation for funds to have a plan to invest up to 5% of assets to support UK levelling up;
- Increase investments in unlisted equity - looking for a 10% allocation to private equity from LGPS funds;
- Amendments to LGPS regulations around the use of investment consultants - officially implementing CMA requirements on investment consultants; and
- Technical change to definition of investments within LGPS regulations

RESOLVED: That

1. The performance management report be noted.
2. The draft work programme for the remainder of 2023-24 be approved subject to the following amendments:
 - The inclusion of a Meet the Manager Day in October 2023.

- The inclusion of a training session for Members before each committee meeting.
3. Members discussed if the Fund should respond to the consultation. It was agreed that the officer would circulate relevant consultation responses to Members.

9. Review of Pension Fund Governance Compliance Statement

Members received a brief introduction to the report of the Director of Finance and Assurance. This report reviewed the Pension Fund's Governance Compliance Statement.

The officer informed Members that the document was last reviewed by the Committee on 19 September 2022 and by the Pension Board on 12 July 2023. The Pension Board had asked that the report be amended to reflect that the Board had no delegated functions from the Council but from The Pension Regulator (TPR).

The officer explained that the appointment of the UNISON Trade Union Observer and forthcoming appointment of the Trade Union Observer from GMB would make the Committee fully compliant in regards to point (b) of Principle A – Structure on page 55 of the Agenda which required that representatives of participating LGPS employers, admitted bodies and Scheme members (including pensioner and deferred members) be appointed as members of either the main or a secondary committee established to underpin the work of the main committee.

An Independent Advisor pointed out that there was no co-optee and that the investment adviser and the independent investment advisers were not Members of the Committee. This was agreed and the text on page 51 of the agenda should be changed accordingly.

RESOLVED that:

1. The latest position on the LGPS Good Governance Review be noted.
2. The updated Governance Compliance Statement be approved for adoption subject to the following amendments:
 - The amendment of “Chief Executive” to “Managing Director” and the delegation of functions 6 and 7 on page 52 of the agenda to the Director of Finance and Assurance.
 - The Membership structure of the Committee on page 51 of the agenda to be changed to exclude a co-optee, the Investment Adviser and the Independent Investment Advisers.

10. Review of Pension Fund Risk Register

Members received a brief introduction to the report of the Director of Finance and Assurance. The report set out the updated Pension Fund Risk Register for Members to review and comment accordingly.

The Chair asked what the significant changes from the last risk register report were. The officer explained that she would circulate this information after the meeting. The Chair asked that the report be presented again together with this information at the next meeting of the Committee.

The officer informed the committee that she would also update the register to reflect the comments of the Pension Board that cyber risk should be included in the risk register.

An Independent Advisor asked what actions would be taken to address the fact that liquidity risk had increased as stated on page 72 of the agenda now that the Fund was slightly cash flow negative and was more negative than in April 2023. The officer explained that there was no imminent risk as the Fund had over £11m in its cash account which was sufficient and furthermore liquidity needs had been taken into account in determining investment strategy. This topic would also be discussed in part II of the meeting. The Aon representative explained that even though cashflow was negative, enough operational cash was available from liquid assets if needed. He said the proposed investment strategy was based on it being worthwhile to increase the Fund's illiquid assets as they had a higher return potential.

The other Independent Adviser suggested that as all the Fund's London CIV assets were non distributing, it might be good to make one or two of them distributing assets to improve liquidity and this should be raised with the London CIV. It was agreed that this should be an action point.

RESOLVED that:

1. the report be noted and risk register be noted.
2. That a further report be brought back to the next meeting of the Committee detailing any significant changes between the previous and updated Risk Register.
3. The London CIV should be approached with regard to distributing assets.

11. Any Other Urgent Business

Appointment of Trade Union Observer

RESOLVED: That Mr John Royle be appointed as the UNISON Trade Union Observer for the 2023/24 Municipal Year.

12. 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 of business, for the reasons set out below:

Agenda Item No	Title	Description of Exempt Information
13.	Performance Dashboard and Update on Regular Items - Appendices 3 & 4	Information under paragraph 3 (contains information relating to the financial and business affairs of any particular person (including the authority holding that information)).
14.	Review of Investment Strategy	Information under paragraph 3 (contains information relating to the financial and business affairs of any particular person (including the authority holding that information)).

13. Performance Update on Regular Items

The Committee received confidential appendices to the Performance Dashboard and Update on Regular Items report. An Independent Adviser, Aon Representative and the officer undertook to answer questions raised during the discussion.

Members agreed the details and attendees for the Meet the Manager Day in October. The officer undertook to arrange the details and invite the agreed fund managers.

(See also Minute 52).

14. Review of Investment Strategy

The Committee received a report on the Review of Investment Strategy from the Investment Adviser. The Investment Adviser answered questions from Members.

RESOLVED: The Committee is recommended to consider the report and:

- I. approved 5% allocation of the Fund assets to Private Debt and reduction of Multi Asset Credits (MAC) allocation by 5%, delegating authority to Section 151 Officer following consultation with the Chair of the Pension Fund Committee to implement the agreed actions;
- II. approved reduction in the Diversified Growth Fund (DGF) by 3% and the proceeds to be use as a source of funding of illiquid assets, delegating authority to Section 151 Officer following consultation with the Chair of the Pension Fund Committee to implement the agreed actions;
- III. the Section 151 Officer to engage the Fund Investment Consultant (Aon) to determine possible alternatives to the current Diversified Growth Fund (DGF) and the identified alternatives to be submitted at the next Committee meeting.

(Note: The meeting, having commenced at 6.30 pm, closed at 8.30 pm).

(Signed) Councillor David Ashton
Chair