



CITY OF WESTMINSTER

MINUTES

Pension Fund Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Thursday 18th October, 2018**, Room 3.4, 3rd Floor, 5 Strand, London, WC2 5HR.

Members Present: Councillors Antonia Cox (Chairman), Melvyn Caplan, Patricia McAllister and Eoghain Murphy.

Officers Present: Phil Triggs (Tri-Borough Director of Treasury and Pensions), Matthew Hopson (Strategic Investment Manager, Tri-Borough Director of Treasury and Pensions), Lee Witham (Director of People Services), Sarah Hay (Pensions and Payroll Officer) and Toby Howes (Senior Committee and Governance Officer).

Also Present: Kevin Humpherson (Deloitte).

1 MEMBERSHIP

1.1 There were no changes to the membership.

2 DECLARATIONS

2.1 There were no declarations of interest.

3 MINUTES

3.1 RESOLVED:

1. That the minutes of the meeting held on 21 June 2018 be signed by the Chairman as a correct record of proceedings.
2. That the minutes of the meeting held on 20 August 2018 be signed by the Chairman as a correct record of proceedings.

4 PENSION ADMINISTRATION UPDATE

4.1 Lee Witham (Director of People Services) presented the report and advised that the last four months had witnessed a stable performance for pension administration. Most key performance indicators were rated green, apart from two that were amber because of a single case in each instance. He advised

that Hampshire County Council (HCC) was due to take over payroll responsibilities from BT on 1 December 2018. Officers had been testing the new payroll system and feedback to date had been positive. Lee Witham advised that every effort would be made to ensure that the transfer to the HCC payroll system would go smoothly.

- 4.2 Sarah Hay (Senior Pensions and Payroll Officer) updated Members concerning the involvement of Western Union in confirming the existence of overseas based pensioners. To date, 168 people had been contacted, however others would take longer to trace due to their full names not being recorded, particularly those retiring in the 1980s.
- 4.3 During discussions, the Chairman acknowledged that the City Council's actuary, Barnett Waddingham, had advised that a data quality cleanse was not necessary. In respect of information on overseas based pensioners, she sought clarification that this was due to the need to acquire further data, as opposed to an actual data lapse. The Chairman asked what the current lifetime allowance was for pensions and requested that information be provided to the Committee at a future meeting if there were any significant changes to this.
- 4.4 A Member asked how long would the exercise to obtain all data on overseas pensioners would take and what steps would be taken in the event of the necessary validation not being able to be completed. Action also needed to be taken to ensure that the correct person was receiving pension payments. A Member commented that the Chancellor was due to make changes in taxation for high earners and she asked if simplified guidance could be provided to the Committee on this.
- 4.5 In reply to the issues raised by Members, Sarah Hay advised that in respect of overseas pensions, the lack of a full name would not prevent someone from receiving their pension, but for security reasons it was important that their full name was obtained. She confirmed that the main need was to acquire additional data and The Pensions Regulator was now required to measure data, including details such as National Insurance number and date of birth. Sarah Hay advised that there would be big push to collect additional data for overseas pensioners in January 2019 to prevent disruption of payments during the Christmas period and to allow the transfer of payroll responsibilities to HCC to bed in. She stated that a Data Improvement Plan was needed and additional resources would be required to undertake this. Sarah Hay advised that overseas data collection exercise should be completed by March 2019.
- 4.6 Phil Triggs (Tri-Borough Director of Treasury and Pensions) advised that in respect of the Chancellor's changes that taxation was a complicated issue and expert advice would be required. Members noted Sarah Hay's comment that Barnett Waddingham had workshops coming up on this. Matthew Hopson (Strategic Investment Manager, Tri-Borough Treasury and Pensions) advised that the current pension lifetime allowance was £1.05m.

5 EQUITY PROTECTION STRATEGY

- 5.1 Matthew Hopson introduced the report which set out the various equity protection strategies available. Kevin Humpherson (Deloitte) was then invited to comment and stated that the Fund could achieve protection on the downside by relinquishing some on the upside. Management fees could be negotiated on a case by case basis. Kevin Humpherson stated that an equity protection strategy should only be pursued if the City Council did not wish to reduce its exposure to equity.
- 5.2 During discussions, the Chairman asked if equity assets could be transferred to gilts bonds. She felt that a reduction in the equities portfolio was desirable because of the situation concerning Longview. In respect of transferring assets to infrastructure or gilts, she felt that this would not be as lucrative as transferring to multi asset credit. She commented that efforts should be made to protect the Fund against reversals in the equity market. A Member commented that there was a risk of over exposure to equities and that this needed to be re-balanced accordingly. Another Member asked if there was any information forthcoming on the next actuarial valuation.
- 5.3 In reply to the issues raised, Kevin Humpherson suggested that securing equity protection strategy was not in the Fund's best interests, especially given the costs involved. He felt that a gradual transfer of funds to other asset classes, such as multi asset credits and infrastructure, would be preferable. Kevin Humpherson added that an equity protection strategy could only be beneficial in the short term.
- 5.4 Phil Triggs advised that high quality gilts were considered an expensive option and this was why multi asset credit and infrastructure were considered preferable. Matthew Hopson advised than an update on the next actuarial valuation could be presented at a future meeting and Kevin Humpherson added that he could provide a briefing paper on this.
- 5.5 The Chairman requested that an update be provided on the next actuarial valuation for the March 2019 meeting. The Committee agreed to the Chairman's suggestion not to pursue an equity protection strategy in view of the advice received.

5.6 **RESOLVED:**

1. That the different types of equity protection strategies available be noted.
2. That it be agreed not to pursue an equity protection strategy.

6 **INFRASTRUCTURE INVESTMENT STRATEGY**

- 6.1 Matthew Hopson presented the report and advised that the Infrastructure Investment Strategy should address the following key areas to meet the Fund's investment objectives:
- High income yield as this is required to help bridge the current gap in negative cashflow
 - Avoidance of "mega cap projects" where high valuations and intense

competition has made these assets a less attractive proposition

- Focus be given to expected drawdown and speed of deployment to avoid holding over fees and to provide access to the market earlier.

6.2 Matthew Hopson advised that it was proposed that Deloitte draw up a list of its highest rated infrastructure managers and officers meet with Deloitte to draw up a short list of three who can present to Committee before it makes a selection following discussions with Deloitte and officers.

6.3 During discussions, a Member suggested that it would be desirable and appropriate to have some investment in infrastructure involving renewable energy. Another Member suggested that investing in infrastructure in renewable energy should only be undertaken if it met the key areas to be addressed to meet the Fund's investment objectives.

6.4 In reply to the issues raised, Phil Triggs advised that consideration could be given to investing in infrastructure relating to renewable energy providing it offered the appropriate investment return. The Chairman concurred that such an option could be considered provided if it met this criteria.

6.5 **RESOLVED:**

1. That the commencement of an infrastructure manager search offering a product in line with the characteristics described in section 4 of the report be agreed.
2. That it be agreed that the value of the contract search be 5% (circa £71m) of the total value of the City of Westminster Pension Fund.

7 ENVIRONMENTAL, SOCIAL AND GOVERNANCE MONITORING REPORT

7.1 The Committee had before it the annual Environmental, Social and Governance (ESG) report that reported on each of the Fund's investment managers' approach to ESG over the last year.

7.2 The Chairman commented on the wide variation of the extent of reporting that investment managers undertook on ESG and noted that Legal and General (LGIM) seemed more committed than most to ESG. She added that discussions on advancing ESG causes could be discussed at the next meeting of the Local Authority Pension Fund Forum (LAPFF) that she was due to attend.

7.3 **RESOLVED:**

That the ESG monitoring report in appendix 1 be noted.

8 QUARTERLY PERFORMANCE REPORT

8.1 Kevin Humpherson presented the report and advised that the Fund had outperformed its benchmark by 0.8% over the quarter to 30 June 2018. He advised that data was now available for the latest quarter up to 30 September

2018, which again had shown that the Fund had performed above the benchmark, despite a relatively poor performance from Majedie. In respect of Insight's buy and maintain credit portfolio, Kevin Humpherson did not anticipate a great deal of change since the restructuring of the mandate had been completed.

8.2 Matthew Hopson advised that the Fund was placed in the 13th quartile of the Local Government Pension Scheme universe for investment asset growth. The Chairman welcomed this achievement and requested further updates on this matter at future meetings.

8.3 **RESOLVED:**

That the performance of the investments and the funding position be noted.

9 FUND FINANCIAL MANAGEMENT

9.1 The Chairman asked that risks marked red or amber on the Risk Register be highlighted and she sought further details in respect of cashflow. In respect of the Committee's Forward Plan, a Member asked if the Discretionary Policy could be considered as part of wider People Services policy rather than this Committee.

9.2 In reply to issues raised, Matthew Hopson advised that the only matter to report for cashflow was the one-off payment to the Fund to address the funding deficit. Members welcomed this as a good use of funds and commented that it would be interesting to see the state of play regarding the funding for the next actuarial valuation. Phil Triggs advised that the Discretionary Policy was usually considered by this Committee, however thought could be given as to whether it should also be considered elsewhere. He added that an update on multi asset credit fund would be provided for the December meeting.

9.3 **RESOLVED:**

1. That the Pension Fund's Risk Register be noted.
2. That the cashflow position and three year forecast be noted.
3. That the Committee's Forward Plan and draft Forward Plan for 2019/20 be noted.

10 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

10.1 A Member asked if there was anything to report in respect of an earlier proposal to transfer Legal Services to LGSS Law Ltd to the Fund. In reply, Phil Triggs advised that this had not been taken forward.

The Meeting ended at 8.54 pm.

CHAIRMAN: _____

DATE _____