CITY OF WESTMINSTER

MINUTES

Pension Fund Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Tuesday 23rd January, 2018**, Room 3.4, 3rd Floor, 5 Strand, London WC2 5HR.

Members Present: Councillors Suhail Rahuja (Chairman), Peter Cuthbertson, Patricia McAllister and Ian Rowley.

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

Also Present: Christopher Smith (Pension Board Member), Kevin Humpherson (Deloitte) and Alistair Sutherland (Deloitte).

1 MEMBERSHIP

1.1 There were no changes to the membership.

2 DECLARATIONS

2.1 Councillor Suhail Rahuja declared that he was employed by fund managers who have amongst their clients Hermes. However, he was not involved in any element of the work which relates to the Westminster Pension Fund and accordingly he did not regard this as a prejudicial interest.

3 MINUTES

3.1 **RESOLVED:**

That the Minutes of the meeting held on 12 October 2017 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 key performance indicators (KPIs) were now considerably more stable and performing at a consistently high level. There were a couple of cases that had missed deadlines, but overall the KPIs were on target and it was now “business as usual”. The number of complaints was also very low and Lee Witham felt that this reflected the relevance of the KPIs being used.

4.2 The Chairman asked for more information concerning a missed payment and why the deferred benefits statement issued KPI had fallen to 86%. He also sought clarification in respect of what the interfunds out actual processed in 30 days KPI entailed and updates on BT dealing with urgent leavers forms and correcting payroll errors from the previous year. Turning to the KPI spreadsheet in the report, the Chairman sought an explanation in respect of 87.5% being recorded for survey to retirees. Members welcomed the overall improved performance and noted that People Services would continue to monitor both BT’s and Surrey County Council’s performance.

4.3 In reply to issues raised, Sarah Hay (Pensions and Payroll Officer) advised that there was a missed payment in respect of a deferred payment. Deferred benefit statements had fallen to 86% because 1 out of 7 cases had missed the deadline. Sarah Hay explained that the interfunds out actual processed in 30 days KPI related to staff being transferred to another Local Government Pension Scheme (LGPS). In respect of the survey to retirees KPI, more data from Surrey County Council was required. Sarah Hay advised that BT had taken over the processing of urgent leavers forms on 1 January and initial indications were that this was working well.

4.4 Lee Witham advised that People Services were continuing to monitor BT’s work in correcting payroll errors.

4.5 Christopher Smith (Pension Board Member and Unison Representative) was invited to comment and he stated that queries or complaints he was receiving from staff in his capacity as the City Council’s Unison representative were now very low and he thanked People Services for their contributions to the improvements.

4.6 The Chairman welcomed the improvements and thanked staff for all their efforts. He then requested more information in respect of the survey to retirees KPI be provided at the next meeting.

5 QUARTERLY PERFORMANCE REPORT

5.1 Kevin Humpherson (Deloitte) introduced the item and advised that performance figures had been updated since the publication of the report. He advised that overall the Fund had performed 0.6% above its benchmark for the quarter and outperformed its benchmark over the last year and the last 3 years by 2.5% and 1.1% respectively.

5.2 During Members’ discussions, the Chairman noted that the covering report mentioned that one fund manager had underperformed and he sought clarification as to who this was. Members asked how well funded was the Westminster Pension Fund and how did this compare with other funds and why were cash injections being made to the Fund.

5.3 In reply to the issues raised by Members, Kevin Humpherson advised that Longview had underperformed this quarter, however this was offset by Baillie Gifford and Standard Life's over performance and hence why the quarter was 0.6% above the benchmark. He informed the Committee that the Westminster Pension Fund was currently 88% funded.

5.4 Alistair Sutherland (Deloitte) added that some funds were 100% funded, and the level of funding across the LGPS varied widely. However, the Westminster Fund was increasing its funding levels and heading in the right direction, although there was still an element of risk to the Investment Strategy in that presently there were not sufficient assets to pay pensions.

5.5 Phil Triggs (Tri-Borough Director of Treasury and Pensions) advised that additional controls had been agreed at the beginning of the financial year to ensure meaningful contributions to tackle the Fund's deficit. However, comparisons with other funds were difficult as funds made different assumptions. Phil Triggs advised that the Fund was 75th out of 89 in the funding levels table and the top 3 funded funds were West Sussex, Wandsworth and the Royal Borough of Kensington and Chelsea funds that were funded at 103%, 100% and 99% respectively.

5.6 The Chairman advised that cash injections were being used as deficit recovery payments for the Fund, although these were relatively modest.

5.7 **RESOLVED:**

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

6 FUND FINANCIAL MANAGEMENT

6.1 Yvonne Thompson-Hoyte (Senior Finance Manager – Pensions) presented the report and circulated an update on Risk Register monitoring. She advised that the Fund had successfully opted up to elective professional status with all counterparties ahead of the 3 January deadline in respect of the implementation of Markets in Financial Instrument Directive 2014/65. As a result, risk 10 in the Risk Register had been removed. However, a new risk 10 had been added to the Risk Register to consider the possible loss of elective professional status upon reassessment at the end of each year. An additional risk 11 had also been added in respect of any new financial institutions the Fund may deal with in future would categorise the Fund as a retail client by default unless a further opting up to elective professional status was carried out. If this was not undertaken, it may result in the Fund having restricted access to information from fund managers of such institutions. Turning to cashflow monitoring, Yvonne Thompson-Hoyte advised that a further £10 million for deficit contributions was expected in February.

6.2 Phil Triggs advised that in respect of risk 11, discussions were taking place with fund manages on strategies to prevent being classified as a retail client.

6.3 The Chairman requested that the spreadsheet for cashflow be updated so that it highlights that some of the £10 million deficit contribution comes through payroll contributions as well as cash injections. He also requested that the Committee's Forward Plan for the remainder of 2018 be updated.

6.4 **RESOLVED:**

1. That the Risk Register for the Pension Fund be noted.

2. That the cashflow position and three year forecast be noted.

3. That the changes to the Committee's Forward Plan be noted.

7 FIXED INCOME MANAGER SELECTION

7.1 Phil Triggs (Tri-Borough Director of Treasury and Pensions) presented the report and confirmed that Insight Investment Management had been selected as the preferred Fixed Income Manager, following a presentation to the Chairman and Councillor Ian Rowley, two officers and the Fund's Investment Consultant, Deloitte. Phil Triggs advised that the transfer of funds to Insight Investment Management would be completed by 1 April in time for the new financial year.

7.2 Kevin Humpherson (Deloitte) confirmed that Insight had sent implication documents and these were consistent with what they had set out in their presentation and there should be no change in assumptions for transaction costs.

7.3 The Chairman emphasised the importance of transferring funds promptly and requested that he be informed of timelines for the transfers and what the transaction costs would be. The Committee approved the recommendation in the report.

7.4 **RESOLVED:**

That the award of the Pension Fund's fixed income contract to Insight Investment Management for a length of five years be approved, with an additional five year extension available, subject to the Committee's approval.

8 LONDON COLLECTIVE INVESTMENT VEHICLE GOVERNANCE REVIEW

8.1 Matthew Hopson (Senior Finance Manager – Treasury) presented the report that provided an update on the governance review of the London Collective Investment Vehicle (CIV) and its key findings. He advised that a number of concerns had been raised in the review, the key concern of which surrounds the engagement of a wide stakeholder base with conflicting priorities, as the London CIV had 33 London borough members. This created difficulty in achieving joint outcomes and slowed progress in the pooling of funds and it was not felt that the Investment Advisory Committee and the Joint Committee were operating optimally to help improve this. There were also concerns regarding a perceived lack of transparency, particularly in respect of manager selection. Another issue of concern was that the London CIV was underfunded and under resourced, particularly in the areas of client relations and the Secretariat.

8.2 Matthew Hopson informed Members that the governance review had made 5 key recommendations, these being:

- Establishing and agreeing a more concise and narrowly defined set of statements of purpose for the London CIV, the Investment Advisory Committee and the Joint Committee
- Review the meeting cycle, reducing the number of full committee meetings and making greater use of sub-committees and working groups with each committee focusing on a clear set of objectives
- A better resourced Secretariat
- Recognising the importance of transparency and cultivating trust and to embed this for the CIV's pooling arrangements
- Setting up an independent resourcing and cost model review to provide further clarity and recommendations on the appropriate levels of funding.

8.3 Matthew Hopson commented that as the London CIV was founded on a voluntary basis, this hindered creating robust governance arrangements and there needed to be more uniformity. He also advised that the Chief Investment Officer of the CIV had vacated the post and there were no immediate plans to replaced him. Members heard that the Department for Communities and Local Government was driving the requirement of local authorities to pool their funds with others.

8.4 Phil Triggs emphasised the importance of the London CIV to appoint a Chief Investment Officer at the earliest opportunity. One of the difficulties the CIV encountered was that the 33 London borough members all had different expectations and approaches.

8.5 The Chairman sought views on the recommendations in the report. Members asked if having too many London boroughs in the CIV was the inherent problem behind the lack of progress.

8.6 Alistair Sutherland replied that it was essential that the CIV carried the recommendations through and it was also important to appoint a suitably qualified Chief Investment Officer promptly. He stated that London boroughs needed to recognise that there needed to be compromises and there was no alternative than for the CIV to work.

8.7 The Chairman commented that it was regrettable that the London CIV had not made the same progress as other LGPS investment pools. He requested that the Interim Chief Executive of the London CIV attend the next meeting to update the Committee on the work of the CIV and progress in respect of appointing a new Chief Investment Officer.

8.8 **RESOLVED:**

That the governance review be noted.

9 FOSSIL FUEL INVESTMENT PRACTICES

9.1 Matthew Hopson presented the report and stated that the Committee's priority was to look after the Fund. He advised that there was very little in the way of fossil fuel investments for the Fund, with only a small fossil fuel related investment as part of the Majedie passive equity mandate existing within the Fund. However, Matthew Hopson advised that if this particular investment was considered a risk, the Committee could reconsider this and could, for example, look at changing to a low carbon equivalent investment, although this may be complicated to undertake as this particular investment was under the London CIV.

9.2 Members enquired what the City Council's response to the Friends of the Earth request that local authorities refrain from investing in fossil fuels was. In reply, Matthew Hopson stated that appendix 1 of the report set out the City Council's position.

9.3 Phil Triggs advised that the Fund had the option to join the Local Authority Pension Fund Forum (LAPFF), a pressure group organisation made up of LGPS funds that sought to lobby organisations to make better environment, social and governance decisions. He felt that there was some merit in joining the LAPFF as it has helped achieve changes in some policies.

9.4 Members concurred that there was no need to look at investing in low carbon alternatives at this stage. The Chairman added that consideration would be given to joining the LAPFF in future.

9.5 **RESOLVED:**

1. That the Pension Fund's current approach to fossil fuel investing be noted.

2. That the City Council's response to the Friends of the Earth's divestment query as set out in appendix 1 of the report be noted.

10 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

10.1 There was no other business.

The Meeting ended at 8.14 pm.

CHAIRMAN: ______________________ **DATE** ___________________