



CITY OF WESTMINSTER

MINUTES

Pension Fund Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Thursday, 11th March 2021**, This was a virtual meeting.

Members Present: Councillors Eoghain Murphy (Chairman), Barbara Arzymanow, Angela Harvey and Patricia McAllister

Officers Present: Phil Triggs (Tri-Borough Director of Treasury and Pensions), Billie Emery (Pension Fund Manager), Matthew Hopson (Strategic Investment Manager), Sarah Hay (Senior Payroll and Pensions Officer) and Toby Howes (Senior Committee and Governance Officer).

Also Present: Kevin Humpherson and Jonny Moore (Deloitte Total Reward and Benefits Ltd)

Apologies for Absence: There were no apologies for absence.

1 MEMBERSHIP

Officers Present: Phil Triggs (Tri-Borough Director of Treasury and Pensions), Billie Emery (Pension Fund Manager), Matthew Hopson (Strategic Investment Manager), Sarah Hay (Senior Payroll and Pensions Officer) and Toby Howes (Senior Committee and Governance Officer).

Also Present: Kevin Humpherson and Jonny Moore (Deloitte Total Reward and Benefits Ltd)

There were no changes to the Membership.

2 DECLARATIONS OF INTEREST

The Chairman declared the following interest: that his employer was HSBC Global Asset Management.

3 MINUTES

Consideration of the minutes of the last meeting of the Pensions Fund Committee ("the Committee") was deferred until the next meeting of the Committee.

4 PENSION ADMINISTRATION UPDATE

The Committee considered a report of the Strategic Pension Lead Officer, Sarah Hay, WCC Operational People Services, which provided a summary of the Key Performance Indicators (KPIs) of Surrey County Council (SCC) for the period October 2020 to January 2021. Also included in the report was an update on the Western Union Existence project which had closed early due to the increasing numbers of Covid-19 cases across the world; an update on the Operational People Services' two main data projects; the ongoing work in tracing addresses for different groups of Pension Fund members and former members; and the now closed-down status two project with ITM¹. The report also included an update on Central Government's proposed "Exit Cap" which had subsequently been revoked by the Treasury due to unforeseen consequences; and confirmation that Central Government was consulting on increasing the minimum retirement age to 57.

Ms Hay presented the report. In response to a number of questions, Ms Hay provided the following information.

- (a) Regarding Central Government's proposals to increase the minimum retirement age to 57, Ms Hay noted that the age at which individuals were entitled to retire might vary depending on the retirement age provisions within the Local Government Pension Scheme (LGPS) at the time they joined the scheme.
- (b) Regarding recovering costs in relation to Status 2 – Undecided Leavers, the Pensions Administration Strategy made provision to recover costs. However, the administering authority, SCC, had been slow to seek to recover costs.

Consideration was being given to moving the administration of the scheme to Hampshire County Council (HCC) and aligning the Pensions Administration Strategy with that of HCC. In addition, it was proposed that the Committee, in an effort to recover some of the costs that had been incurred, should consider imposing fines on employers who had been slow in responding to requests for information.

Agreed: consideration be given to imposing fines to recover some of the Status 2 costs incurred.

- (c) Regarding the transition to HCC, a Project Manager, Ms Diana McDonnell-Pascoe had been appointed and it was anticipated that the project would go live in November of this year. Project Board meetings were taking place with HCC and Ms McDonnell-Pascoe would be submitting progress reports to meetings of the Committee.
- (d) In the transition to HCC, no records would be deleted and efforts would continue to be made to trace persons who had left the Fund and process refunds to these Members.
- (e) Regarding any outstanding Guaranteed Minimum Pension (GMP) work, this would be transferred to HCC. It was the preference of officers not to start any work in relation to the government consultation following the McCloud/Sargeant litigation until such time as the transfer to HCC had taken place.

Noted

¹ Independent consultants who provide data services to the Pensions and Insurance industries.

5 PENSION FUND BUSINESS PLAN AND INVESTMENT CONSULTANT PERFORMANCE REVIEW

The Committee considered a report of the Tri-Borough Director of Pensions and Treasury, Phil Triggs, regarding the City of Westminster Pension Fund Business Plan and Budget for 2021/22. The report was presented by Matthew Hopson, Strategic Investment Manager.

It was noted that the purpose of the report was to recommend that the Pension Fund Committee adopt a Business Plan for the year 2021/22 which would record everything that was being done by the Committee and officers to ensure that the aims and objectives of the Pension Fund were being met.

In response to a number of questions, the following information was provided.

- (a) Mr Triggs stated that information on the budgetary costs of administering the Pension Fund had been included in the report in response to a requirement to divulge as much information on costs as was possible, including requesting Investment Managers to provide the necessary manager fee information.

Agreed: that a briefing note on Administrative Costs be prepared for circulation to Members of the Committee.

- (b) The performance of the Fund Managers was benchmarked in the quarterly reports to the Committee.
- (c) The reason for the increase in administrative costs included the one-off cost of transitioning to HCC.

[There then followed a discussion about the relative increase and decreases in costs, issues of cost transparency and the requirements of the LCIV²].

RESOLVED: To Approve the Pension Fund Business Plan.

6 DWP PENSION SCHEMES ACT 2021

The Committee considered a report of the Tri-Borough Director of Treasury and Pensions, Phil Triggs, on the implications of the statutory provisions of the Pensions Schemes Act 2021 which introduced measures ensuring that trustees were legally required to access and report on the financial risks of climate change within their portfolios, in line with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations.

It was recommended that the Pension Fund Committee note and comment on the Pension Schemes Act 2021 climate risk reporting disclosures and the Deloitte paper, attached as an appendix to the report, on the Financial Stability Board's TCFDs.

Mr Triggs introduced the report. He then invited Kevin Humpherson of Deloitte Total Reward and Benefits Ltd ("Deloitte") to present the appendix attached to the report.

Having heard the presentation, which including a contribution from Richard Slater of Deloitte, the following points were raised in the subsequent discussion.

- (a) Regarding the standardisation of metrics and reporting measures, Deloitte's risk assurance managers were working on systems of reporting which would

² London LGPS CIV Ltd which is responsible for managing London Local Government Pension Scheme ("LGPS") assets.

allow businesses to report on a level playing field and in an appropriate manner.

- (b) The response of the Department for Work and Pensions (DWP) to the consultation on the TCFD recommendations confirmed the phased introduction of new climate-related governance requirements. These requirements would include any private sector occupational pension scheme with more than £1 billion of net assets having to comply with the requirements from 1 October 2022. The Westminster City Council Fund was about £1.7 billion, but the government's proposed phased introduction did not, as yet, include the LGPS. This will be implemented by the MHCLG, once approved by the LGPS Scheme Advisory Board.

Noted

7 FUND FINANCIAL MANAGEMENT

The Committee considered a report of the Tri-Borough Director of Treasury and Pensions, Phil Triggs, regarding the Risk Register, which it was noted was divided into two sections: governance (investment and funding), and pensions administration. The report highlighted the top five risks, noting that the cash flow forecast for the next three years had been updated with actuals to 31 December 2020; the bank position continuing to be stable.

It was recommended that the Committee note –

- (i) The risk registers for the Pension Fund; and
- (ii) The cash flow position; the rolling 12-month forecast; and the three-year forecast.

In response to a question by the Chairman, Matthew Hopson, Strategic Investment Manager gave an overview of the cash balances as set out in Paragraph 4 of the report.

In response to a number of questions, officers provided the following information.

- (a) Regarding the "Special Contribution" referred to in the table in Paragraph 4.4 of the report, it was noted that this was the Council's Deficit Recovery Contributions which had been paid over in February/March 2021 but which was not reflected in the figures up to December 2020.³
- (b) Regarding the risk identified in Admin Row 4 of the table on Page 59 that "an employer ceases to exist with insufficient funding or adequacy of bond placement", it was noted that this related to how financial risks were calculated and the impact on the Fund in terms of reputational damage, and how the risk would be managed by way of the mitigating measures identified in the table.
- (c) Regarding the table headed "Current Account Cash Flows Actuals and Forecast for Period April 2020 – March 2021" on page 54, and the row detailing "Withdrawal/Deposit with Fund Managers", it was stated that the £12 million in the column for March 2021 represented the deficit recovery funds that were in the Pension Fund bank account and subsequently transitioned over to The Fund's Custodian, Northern Trust.

³ Paragraph 4.7 of the report noted that the deficit recovery receipt expected during 2020/21 totalled £22.7 million. A final deficit recovery payment of £80 million was expected to be received during 2021/22.

- (d) The figures in the table referred to the Pension Fund current account. It was noted that it was desirable not to have too much money in that account and, if there was a significant payment into the account, to transfer funds as soon as possible to Northern Trust as the global custodian of the Trust.

Agreed: Future Fund Financial Management reports would include a paragraph about the total cash position, including money in custody.

8 PERFORMANCE OF THE COUNCIL'S PENSION FUND

The Committee considered a report of the Tri-Borough Director of Treasury and Pensions, Phil Triggs, regarding the performance of the Pension Fund investments to 31 December 2020, together with an update of the funding position.

The report recommended that the Pension Fund Committee –

- (i) Note the performance of the investments and the funding position; and
- (ii) Approve the updated Investment Strategy Statement (attached to the report at Appendix E).

Matthew Hopson, Strategic Investment Manager, introduced the report, noting that officers wanted to bring to the attention of Members future investment strategies, and that Deloitte had prepared a presentation on investment themes that the Committee may wish to consider. The Chairman then invited the Deloitte representatives present at the meeting to make their presentation.

[The Committee then received a detailed presentation by Kevin Humpherson of Deloitte Total Reward and Benefits Ltd].

In response to a number of questions, Mr Humpherson provided the following information.

- (a) Social and Affordable Housing was an opportunity where the case for investment was strong, as were the social aspects of such investment given the need in this area. He stated that this could be a substitute for some of the Council's fixed income portfolio and one which provided a link to inflation unlike a fixed income portfolio.
- (b) Regarding Evergreen Funds, there were a range of fund structures available including both closed and open-ended structures. The assets in both structures would be used to buy property assets which need not be new build, as would be the case for supported living purpose-built accommodation. Income from ground rent on property could be from investment in a property that already existed.
- (c) There were a number of drivers that lent support to the investment recommendations including government backing and which afforded protection against inflationary risks, as well as market demand in these areas, giving rise to a strong return; and the societal impact and the inclusion of Environmental, Social and Governance (ESG) considerations which, although not a driving force, was a key element.
- (d) There was a significant difference in the supply and demand dynamics of ground rent and affordable and supported housing to make these subsectors of the property asset classes in their own right. However, investment in property was not the only way of gaining exposure to inflation [a theme which Mr Humpherson then expanded upon].

- (e) The purpose of the presentation was to give an idea of where there might be inflation linked opportunities.
- (f) Investments providing a return by way of ground rent would apply to commercial properties only, not residential properties.

Councillor Harvey stated that, given the wider social and economic benefits of ESG investing, she was in support of the approach presented in the presentation by Deloitte. However, she had significant misgivings about investments giving a return by way of ground rent.

Mr Humpherson confirmed that any investment in property providing income by way of ground rent would be restricted to commercial properties.

In response to a question by Councillor McAllister, Mr Humpherson stated that the way in which to approach investments in affordable and supported housing would be to look at various investment managers who were raising funds to invest in this market, typically pension scheme investors. The ownership and responsibility of sourcing assets would be that of the investment manager. Therefore, it would be necessary to find an appropriate investment manager with the relevant background, knowledge, and experience.

In response to a further question by Councillor McAllister, Mr Humpherson stated that the Retail Price Inflation (RPI) would be aligned with the new CPIH⁴ measure of inflation in 2030.⁵

In response to a question by the Chairman, Mr Humpherson stated that a further presentation with more detailed proposals would be submitted to the Committee, including the type of fund managers that may be recommended to the Committee, and addressing some of the issues about complexity that had been raised during the course of the discussion following the presentation.

RESOLVED: that a further presentation on possible investment structures with more detailed proposals and recommendations be presented to a future meeting of the Committee.

9 RESPONSIBLE INVESTMENT STATEMENT

The Committee considered a report of the Tri-Borough Director of Treasury and Pensions, Phil Triggs, introducing the Responsible Investment Statement for the Westminster Pension Fund which was in response to the Local Government Pension Scheme (LGPS) Scheme Advisory Board (SAB) draft guidance on Responsible Investments in the LGPS.

The report recommended that the Pension Fund Committee –

- (i) Note and comment on the Responsible Investment (RI) Statement; and
- (ii) Delegate authority to the Tri-Borough Director of Treasury and Pensions to publish the final version of the RI Statement.

The Chairman invited Members of the Committee to make any comments they might have on the “Responsible Investment Statement: City of Westminster Pension Fund 2021”.

⁴ Consumer prices index including owner-occupiers’ housing costs

⁵ See page 124 of the reports before the Committee.

Councillor Harvey stated she had concerns regarding two of the three ESG Case Studies set out in the report viz Ingenuity House and Amazon. In response to Councillor Harvey's concerns, Mr Triggs, stated that there were many examples of success stories within the Council's portfolio that could be used and that research would be carried out to find alternative suitable examples.

Councillor McAllister concurred with the comments made by Councillor Harvey and proposed that better examples should be found. Councillor Arzymanow noted that Manchester University had won a Nobel Prize for graphite [graphene] technology and developments in battery technology represented opportunities for ESG investment.

After a further brief discussion, it was **Agreed** efforts should be made to find examples of suitable ESG case studies and projects.

10 SHAREACTION HEALTHY MARKETS COALITION

The Committee considered a report of the Tri-Borough Director of Treasury and Pensions, Phil Triggs, seeking approval from the Pension Fund Committee for the Pension Fund to -

- (i) Formally join the ShareAction Healthy Markets Coalition; and
- (ii) Provide officers with delegated authority to co-sign letters to target retailers and manufacturers on the Committee's behalf.

The Chairman asked if Members were minded to approve the recommendations set out in the report. The Members of the Committee confirmed that they agreed with the recommendations.

RESOLVED: to approve the recommendations set out in the report.

11 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

The Chairman did not have any items of business that he considered to be urgent.

Adjournment

At this stage of the proceedings, the Chairman adjourned the meeting and the Members retired to consider those items of business that were deemed to be exempt under the Access to Information regulations.

SUMMARY OF ITEMS CONSIDERED WHILE THE PUBLIC WERE EXCLUDED FROM THE MEETING UNDER THE PROVISIONS OF THE ACCESS TO INFORMATION REGULATIONS

Item 12: Investment Consultancy Procurement

The Committee considered a report of the Tri-Borough Director of Treasury and Pensions in relation to the appointment of an Investment Consultant.

RESOLVED: To approve the recommendation set out in the report.

Item 13: Surrey Pension / Heywood / Hampshire

The Committee considered a report of the Pensions Officer, People Services, updating the Committee on issues affecting the Pension Fund.

RESOLVED: To note the report.

The Meeting ended at 7.10pm

CHAIRMAN

DATE