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**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 3B - Town Hall
20 September 2016 (7.00 - 9.40 pm)**

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman), Dilip Patel (substitute for Jason Frost) and Melvin Wallace
Residents' Group	Nic Dodin and John Mylod (substitute for Stephanie Nunn)
East Havering Residents' Group	Clarence Barrett
UKIP Group	David Johnson (Vice-Chair)
Trade Union Observers:	John Giles

Apologies were received for the absence of Councillors Jason Frost and Stephanie Nunn), and Andy Hampshire and Heather Foster-Byron.

The Chairman reminded Members of the action to be taken in an emergency.

8 MINUTES OF THE MEETING

The minutes of the meeting of the Committee held on 14 June 2016 were agreed as a correct record and signed by the Chairman.

9 MATTERS ARISING

Further to minute no. 4 of 14 June 2016 officers had reviewed the recommendation that the Council do not apply the discretion to allow the award of a lump sum compensation payment of up to 104 weeks pay within six months of the termination date and where no additional benefits had been awarded under the LGPS.

Officers advised the Committee that in 1992 the Council had fixed their own cap on the level of compensation which could be awarded. Additionally the Government were planning to introduce a cap on the maximum level of compensation available on exit from employment.

In the circumstances officers would not be changing their decision.

10 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED JUNE 2016

Officers advised the Committee that the net return on the Fund's investments for the quarter to 30 June 2016 was 4.5%. This matched the tactical benchmark and represented an under performance of -7.0% against the strategic benchmark.

The overall net return for the year to 30 June 2016 was 5.6%. This represented an under performance of -2.4% against the tactical combined benchmark and an under performance of -17.1% against the annual strategic benchmark.

At the close of business on 30 June 2016 the total combined value of the fund was £602.33m this represented an increase of £30.13m from the position at the close of business on 31 March 2016. Officers advised that as at the end of July 2016 the value of the fund stood at £624m.

Officers informed the Committee that they had met with a WM representative on 17 August 2016 who had given their annual presentation on the returns of the WM universe (other LGPS funds) and how the Havering Fund performed compared to the universe. The WM universe was made up of 88 funds with a combined asset value of £207bn. The benchmark for the universe was 0.2%. Havering Pension Fund had returned -1.0% (gross of fees), an underperformance against the universe benchmark of -1.2%.

The long term performance of the Fund's annual return against the retail price index showed that over 3, 5, 10 & 20 year periods the fund had outperformed inflation.

WM had made a decision to discontinue providing performance measurement services to third party clients in the UK, effective from March 2016. The production of all universe analysis including the local authority peer group analysis would also be discontinued. They would still continue to provide their core performance measurement to State Street clients who subscribe to their custody and/or accounting service.

The Havering Pension Fund subscribes to both the custody and accounting services so performance measurement will continue for our fund.

Officers informed the Committee that the London CIV was leading on the issue of obtaining alternative service providers to produce the universe data.

The Committee had received an update from Hymans Robertson and presentations from Royal London their investment in UK Investment Grade Bonds and Ruffer on their absolute return portfolio.

The Committee **noted** the reports and presentations.

11 **RESPONSIBLE INVESTMENT: MANAGER REVIEW**

In accordance with the Statement of Investment Principles Officers had asked the Fund's Investment Advisor (Hymans), to produce a summary report on the responsible investment activities of the Fund's Investment managers.

The Fund's current policy with regard to responsible investments was as follows:

a) **'Social, Environmental and Ethical Considerations**

The Pensions Committee has carefully considered socially responsible investment in the context of its legal and fiduciary duties and obligations. In view of the objectives set out in this statement, the Pensions Committee takes the view that, non-financial factors should not drive the investment process to the detriment of the financial return of the fund.

Whilst at this time the Pensions Committee has determined not to place any restrictions on Investment Managers for ethical, social and environmental reasons the Pensions Committee considers it appropriate for the Investment Managers to take such factors into account when considering particular investments.

The Pensions Committee also believes that it does not have the relevant expertise to make frequent assessment of the financial impact of companies' activities. To that extent, the Pensions Committee has a policy of non-interference and the Investment Managers have full discretion over day to day decision making.'

Shareholder voting rights were typically only available to the Fund's investment managers that had equity holdings: this included the Fund's investments with Baillie Gifford and SSGA together with the multi-asset mandates managed by Ruffer, GMO and Baillie Gifford, all of which incorporated some level of equity investment.

Hymans report had indicated the voting strategy of the various investment managers, none of which raised concern for the Committee.

The Committee noted the report but asked officers to consider amending the wording of the 'Social, Environmental and Ethical Considerations by

removing the word 'expertise' in the third paragraph and replacing it with 'capacity'. The wording with regard to this issue would be reviewed when compiling production of the new Investment Strategy Statement.

12 **PENSION FUND ACCOUNTS 2015/16**

Officers had submitted the Havering Pension Fund unaudited accounts as at 31st March 2016 for consideration before they were submitted to the Audit Committee for sign off.

Key items to note from the statement were:

- The Net Assets of the Fund had decreased to **£573m** for 2015/16 from £575m in 2014/15, a net decrease of £2m.
- The net decrease of £2m comprised a change in the market value of assets of (£8m), investment income of £5m and net additions of cash of £5m and offset by management expenses of (£4m).
- The overall return on the Fund's investments was **-1.2%** (net of fees) (2014/15 13.2%). This represented an under performance of **-2.8%** against the tactical benchmark (2014/15 outperformance of 1.7%) and an under performance of **-7.7%** against the strategic benchmark (2014/15 underperformance of -12.9%).
- A copy of the audited Pension Fund Accounts and the auditors' opinion would be included in the 2015/16 Pension Fund Annual Report. The statutory publication date for the 2015/16 Pension Fund Annual Report was 1 December 2016.

The Committee noted the report and had no issues of concern.

13 **PENSION FUND ANNUAL REPORT - YEAR ENDED 31 MARCH 2016**

Officers had prepared the Annual Report for the year ending 31 March 2016 in accordance with Regulation 57 of the Local Government Pension Scheme Regulations 2013, which applied for reporting periods beginning 1 April 2014. The authority must publish the pension fund annual report on or before 1 December following the year end.

The Regulations stated that the annual report must contain the following:

- a) Management and Financial Report;
- b) Investment Policy and Performance Report;
- c) Scheme Administration Report;
- d) Actuarial Statement;
- e) Current version of the Governance Compliance Statement;
- f) Fund Account and Net Asset Statement (including Audit opinion);

- g) Levels of performance set out in a Pensions Administration Strategy;
- h) Current version of Funding Strategy Statement;
- i) Current version of Statement of Investment Principles;
- j) Current version of Communication Strategy;
- k) Any Other Material.

In preparing and publishing the pension fund annual report the authority must have regard to guidance given by the Secretary of State. On 18 August 2014 the Department of Communities and Local Government (DCLG) had issued a letter stating that authorities should use the guidance published by the Chartered Institute of Public Finance and Accountancy.

The pension fund annual report had been prepared in accordance with the guidance issued by the DCLG and with regard to the updated CIPFA/PRAG guidance issued in August 2014.

The Committee have:

1. Agreed the 2015/16 Pension Fund Annual report;
2. Agreed that the Pension Fund Annual Report should be published electronically; and
3. Authorised the Chairman and Chief Executive to conclude and sign so far as necessary, the annual report.

14 **PUBLIC SERVICE PENSIONS ACT - SECTION 13 VALUATION**

The Committee were informed that the Governments Actuary Department (GAD) had been appointed by the Department of Communities and Local Government (DCLG) to review 2013 valuations, as a 'dry run' to assess whether the aims of Section 13 of the Public Services Pensions Act 2013 were being met.

Section 13 (4) required GAD to report on whether four main aims had been achieved:

- a) **Compliance** – to confirm the fund's valuation had been carried out in accordance with the scheme regulations.
- b) **Consistency** – to confirm the fund's valuation was not inconsistent with other valuations..
- c) **Solvency** – to confirm employer contributions was set at an appropriate level to ensure the solvency of the pension fund, and
- d) **Long Term cost efficiency** – to confirm employer contributions were sufficient to meet benefit accrual and existing deficit.

Section 13 would apply for the first time to the 2016 round of fund valuations and the report was expected to be published in the summer of 2018.

The 'Dry Run' results summary for the LGPS was as follows:

- a) As anticipated, no **compliance** issues were found.
- b) GAD reported that they had found both presentational and evidential **inconsistencies** in the valuation approach adopted by LGPS funds, and in assumptions used and disclosure of results.
- c) GAD reported concerns over securing **solvency** for two closed transport funds. A number of funds raised amber flags on one or more metrics examined under solvency. No funds were red flagged.
- d) GAD named two funds with whom they would have wanted to have further discussion over the **long term cost efficiency** of their funding plans. For funds advised by Hymans, no red flags were raised on either solvency or long term cost efficiency reflecting the robust and transparent nature of the funding plans put in place by LGPS Administering Authorities.
- e) GAD clarified that **meeting solvency and long term cost-efficiency requirements takes precedence** in the regulatory framework over the desirability of stable contributions.

The 'Dry Run' results impact on the Havering Pension Fund was as follows:

- a) A number of amber flags were raised under the criteria for **solvency**. Using the Scheme Advisory Board (SAB) standardised basis, ten funds with the lowest funding levels were highlighted, one of which was the Havering Pension Fund.
- b) The report stated that whilst poorly funded this was not necessarily sufficient, by itself, to warrant a recommendation for remedial action had section 13 been in force, they may have engaged with these funds to better understand how they intended to improve their funding position.
- c) The fund actuaries were in the process of preparing the 2016 valuations, when section 13 would be in force. Hymans would have consideration of the outcome of the dry run report as part of this process and officers and the Fund's Actuary would report back to the committee when the 2016 valuations results were finalised.

The report was noted.

15 EXCLUSION OF THE PUBLIC

The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which could reveal information relating to the financial or business affairs of any particular person (including the authority holding that information) and it was not in the public interest to publish this information.

16 EXEMPT MINUTES OF THE MEETING

The exempt minutes of the meeting of the Committee held on 14 June 2016 were agreed as a correct record and signed by the Chairman.

17 HYMANS ROBERTSON REVIEW OF FUND PERFORMANCE FOR THE QUARTER ENDING 30 JUNE 2016

Hymans Robertson provided the Committee with an overview and update on the Pension Funds' performance in the quarter ending 30 June 2016. Details of the performance of the individual fund managers was highlighted.

The report was noted.

18 ROYAL LONDON ASSET MANAGEMENT PERFORMANCE REPORT

Representatives from Royal London Asset Management delivered a presentation on the performance of their mandate during the quarter ending 30 June 2016. The opportunity was also taken to inform the Committee of a new product they were launching in the New Year.

The presentation was noted.

19 RUFFER LLP, PERFORMANCE REPORT.

Representatives of Ruffer LLP delivered a presentation on their mandates performance up to 15 June 2016.

The presentation was noted.

20 **THE ADMISSION OF SPORTS AND LEISURE MANAGEMENT LTD TO THE LONDON BOROUGH OF HAVERING PENSION FUND**

The Committee was advised that Sports and Leisure Management Ltd (SLM) would be entering in to a new 'closed agreement' as an admitted body in the Havering Pension Fund.

The continued admission of Sports and Leisure Management Ltd in the London Borough of Havering Pension Fund as an admitted body enabling 51 members of SLM staff currently covered by the existing closed Admission Agreement and enable 2 members of Council staff transferring to SLM under TUPE arrangements to continue membership of the Local Government Pension Scheme (LGPS), was noted, subject to:

1. All parties signing up to a new Admission Agreement, and
2. An indemnity or Insurance bond in an approved form with an authorised insurer or relevant institution, being put in place to protect the pension fund.

Chairman