CITY OF WESTMINSTER

MINUTES

Pension Fund Committee (Formerly Superannuation Committee)

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee (Formerly Superannuation Committee)** held on **Monday 16th November, 2015**, Rooms 3 and 4, 17th Floor, City Hall, 64 Victoria Street, London, SW1E 6QP.

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

Officers Present: Officers: Carolyn Beech (Director of Human Resources), Steven Mair (City Treasurer), Nikki Parsons (Pension Fund Officer), Neil Sellstrom (Tri-Borough Pensions Team) and Toby Howes (Senior Committee and Governance Officer).

Also Present: Hugh Grover (Chief Executive, London Collective Investment Vehicle, London Councils), Julian Pendock (Investment Oversight Director, London CIV, London Councils), Alistair Sutherland (Deloitte), Susan Manning (Pension Board Representative), Dr Norman Perry (Pension Board Representative) and Christopher Smith (Pension Board Representative).

1 MEMBERSHIP

1.1 There were no changes to the Membership.

2 DECLARATIONS OF INTEREST

2.1 The Chairman 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 8 September 2015 be signed by the Chairman as a correct record of proceedings.

4 MINUTES OF PENSION BOARD

4.1 Members acknowledged that the Committee would receive the minutes of the last Pension Board meeting for noting on future agendas. The Committee noted the minutes of the last Pension Board meeting held on 19 October 2015.

5 UPDATE ON LONDON COLLECTIVE INVESTMENT VEHICLE

5.1 Hugh Grover (Chief Executive, London Collective Investment Vehicle, London Councils) gave the first half of a presentation on progress on the London Collective Investment Vehicle (CIV). He advised that the London CIV included 30 London boroughs and the City of London Corporation. The CIV had been formally authorised in October 2015, and it had received its first wave of funds amounting to £6 million that had been authorised by the Financial Conduct Authority (FCA) on 13 November. Hugh Grover advised that the first sub-fund had been set up operating on active global equities and eight other sub-funds would be set up early in 2016, including three passive equity funds. The CIV had discussed the possibility of appointment with 20 fund managers and four fund managers currently were appointed to work with the CIV, with most of the remaining 16 fund managers expressing their wish to work with the CIV. Hugh Grover added that it was hoped that the two remaining London boroughs would join the CIV.

5.2 Julian Pendock (Investment Oversight Director, London CIV, London Councils) then addressed the Committee. He began by explaining the governance structures in place, including segregated mandates and pooled mandates. Members also heard about factors to consider in respect of fixed income. Julian Pendock then turned to infrastructure and emphasised the significant value adds that could be gained through larger economies of scale. The CIV also needed to take into account issues such as the changing nature of the infrastructure market.

5.3 During Members' discussion, details were sought about the steps that would be taken to minimise transactional costs. It was commented that aggregating fund managers was the right strategy for the CIV to take which would mean reducing costs, whilst local authorities participating in the CIV would not need to change fund managers. A Member commented that it would be advantageous if the CIV invested in UK commercial property on a larger scale and he enquired whether there were any plans to do so. In noting the aggregating of fund managers, he commented that they were still accountable to the decisions they made and he asked whose role it would be to monitor fund managers, adding that the Council should also undertake its own monitoring.

5.4 In reply, Hugh Grover advised that the CIV had been working hard with fund managers to reduce transactional costs, however there was probably not much more scope to reduce these costs further. One fund was also affected by stamp duties in Dublin and discussions were taking place as to how to address this. Hugh Grover advised that there were future plans to invest in commercial property, however the immediate priority was to firmly establish the CIV. He commented that there were diverse property and infrastructure portfolios across the London boroughs. Investment in equities had been chosen for the launch of the CIV as it was felt that a simpler area of investment was beneficial at this stage. Julian Pendock confirmed that it was his role to monitor fund managers' performance on behalf of the CIV. The Chairman added that the Council would continue to monitor fund managers' performance and this would be reported the Committee as well as the CIV's monitoring. He commented that fund managers were incentivised to work with the CIV because of the increasing role it would play in making investments on behalf of councils.

5.5 Members enquired whether the CIV would be looking to invest in large infrastructure projects and if so at what stage would it start to benefit from such investments. A point was raised as to whether higher charges would need to be imposed as the CIV grew and became more complex. A Member commented that there was an element of risk in investing in areas that were not fully understood and expressed concern about investing in new, large infrastructure projects, particularly in respect of the danger of underestimating costs. He also enquired whether the CIV would be considering investments in private markets.

5.6 In reply, Hugh Grover advised that it was the decision of the participating London boroughs as to whether to invest in large infrastructure projects. He commented that if a group of London boroughs wanted to invest in particular infrastructure projects, then the CIV could do this on their behalf. In respect of costs, he explained that there were both service charges and fees applied across the Fund as a whole. A comprehensive analysis would need to be undertaken to predict costs and the CIV would be liable to Corporation Tax, however every effort would be made to minimise the costs of the CIV fund. Hugh Grover stated that it was hard to predict how the CIV would grow and this would be at the discretion of the London boroughs.

5.7 Julian Pendock advised that in terms of fixed income, there was considerable fragmentation amongst the London boroughs and so these sub-funds would remain smaller compared to others. The CIV also needed to focus on areas such as interest rates and it would consult extensively with the London boroughs in order to minimise risks. Julian Pendock emphasised the benefits of London boroughs co-investing and sharing costs. He also stated that the CIV would be looking at possible investments in private markets in the future.

5.8 The Chairman sought further details on the cost savings that the CIV would make, including examples of these. He commented that fund managers fees were large in comparison to other fees and asked whether there would be a future report outlining the cost savings the CIV would make. The Chairman asked how fund managers were reacting to the steps being taken by CIVs and whether non-London councils could join the CIV. Another Member enquired what would happen in situations where the CIV had made a collective decision and some London boroughs had subsequently dissented.

5.9 In reply, Hugh Grover commented that there should not be an excessive focus on fees savings as the CIV would also bring benefits through larger economy of scale. He suggested savings of around 50% on sub-funds and around 65% on index funds as estimated by Deloitte could be achieved, whilst other savings would also be made through joint procurements. Hugh Grover commented that although other CIVs had quoted some significant savings, in his view these were hard to justify and a benchmarking exercise amongst CIVs needed to be undertaken. The Committee noted that of the 20 fund managers the CIV had been in discussion with, many of the 16 who had not been appointed were now re-engaging with the CIV and some were offering fee savings of around 50%. Hugh Grover advised that where a London borough subsequently dissents from a decision by the CIV, this would be considered by a Joint Committee and every effort would be made to find common ground.

5.10 Members welcomed any attempts to encourage non-London councils to join the CIV which would increase economies of scale and drive costs down and expressed their approval of the work undertaken by the CIV to date.

6 PENSIONS ADMINISTRATION UPDATE

6.1 Carolyn Beech (Director of Human Resources) presented the first report updating Members on progress of the Communications and Engagement Strategy 2015-2016 that had been agreed by the Committee at the last meeting on 8 September. She advised that the Pensions Annual General Meeting on 21 September had been successful, with attendance from current, prospective and retired members. The Admitted Body Forum had met on 4 November and the agenda included teachers’ pensions, Local Government Pension Scheme legal update and a review of processes between other providers and BT. Carolyn Beech advised that a Pension Surgeries session held on 6 November had been so popular that additional dates were to be planned.

6.2 Members enquired if any issues had arisen from the Admitted Body Forum meeting. A Member stated that a KPMG paper had suggested that pension schemes should have more separation between local authorities and admitted bodies and she enquired whether this was possible. She also sought clarification in respect of statement of pension rights for a survivor’s rights when a scheme member died.

6.3 In reply, Carolyn Beech advised that the Admitted Body Forum had expressed concern about payroll providers of schools not using BT who had submitted their payroll files late. The external payroll providers had expressed some confusion since the Council’s move to BT and all were working closely to resolve the issue. Carolyn Beech advised that a statement of pension rights for survivors existed on the Annual Benefits Statement. She advised that there was already a degree of separation between the Council and admitted bodies in the pension scheme, however scheduled bodies were more closely tied with the Council as they were schools. Neil Sellstrom (Tri-Borough Pensions Team) advised that the KPMG report had emphasised the need to ensure that the Pension Fund money was appropriately separated from the Council’s money.

6.4 Carolyn Beech then presented the second report that sought the withdrawal of the abatement policy. In response to Members request for further clarification on the matter, Carolyn Beech advised that the abatement policy was applied when an employee who had left the Council was now earning more through their pension and their salary with another local authority than the salary they were earning at the Council. The report recommended the withdrawal of the abatement policy as its application was inconsistent because it did not apply to those ex-employees now working in the private sector, nor those working for local authorities in a consultancy capacity.

6.5 **RESOLVED:**

1. That the progress made against the Westminster City Council Local Government Pension Scheme Communications and Engagement Strategy 2015/2016 be noted; and

2. That it be agreed that the Westminster City Council abatement policy be withdrawn.

7 ADMISSION AGREEMENT FOR JPL CATERING

7.1 Carolyn Beech presented the report that outlined the admission agreement on the Pension Fund scheme for JPL Catering. She advised that the Committee did not have powers to refuse the admission, however the risks to the Council was minimal as the Ark Academy Trust were liable for costs should JPL Catering fold.

7.2 Members commented on the detail of the admission agreement and sought further details on its costs and how it was produced. In reply, Carolyn Beech advised that a template was used to draw up admission agreements and the costs were not significant.

7.3 Members requested a future report on the underlying risks in accepting admitted bodies to the pension scheme.

7.4 **RESOLVED:**

That the closed Admission Agreement for JPL Catering Limited be ratified.

8 KEY PERFORMANCE INDICATORS

8.1 Steven Mair (City Treasurer) presented the report and advised that the Secretariat to the Local Government Pension Scheme (LGPS) Scheme Advisory Board (SAB) had agreed the five key themes that individual LGPS fund performances should be assessed for the 2015 national benchmarking exercise. The SAB had also identified four core key performance indicators (KPIs) to identify under-performing funds and 14 supplementary ‘health’ KPIs that can be used to identify where potential management problems may lie and improvements that could be made. Steve Mair added that the Council was awaiting for more data before making a further response to the SAB.

8.2 Members commented that some LGPS funds would be heavily underfunded compared to others. It was suggested that the Council could offer examples of best practice in respect of training, although there was still room for improvement in this area. Members also felt that the benchmarking exercise would pressurise councils into focusing on obtaining discount rates.

8.3 In reply to Members' comments, Steve Mair advised that the benchmarking exercise would afford the opportunity for the Council to be informed of its position relative to other local authorities on a standard basis. Neil Sellstrom added that standard assumptions were compiled by actuaries in respect of level of funding and a report was to be produced on this.

8.4 **RESOLVED:**

1. That the Council's response to the key performance indicator exercise be noted; and

2. That it be noted that the national results of the key performance indicator exercise will be available early in 2016.

9 BUSINESS PLAN

9.1 Steven Mair introduced the report on the 2015/2016 Business Plan and welcomed comments from Members. The Chairman welcomed the Business Plan which would bring the benefit of standardising a number of factors for the tri-boroughs. A Member suggested that some of the deadlines in the Business Plan were demanding and she asked whether there was any possibility of slippage. In noting that the Standard Life mandate for Hammersmith and Fulham Council was the same as the Council's, Members requested that consideration be given to including this in the London CIV.

9.2 In reply to Members' comments, Steven Mair advised that most targets on the Business Plan had been met to date, and although every effort was being made to meet the remaining targets, it was possible that there could be some slippage in the medium term. Steven Mair agreed to make enquiries about the possibility of the Standard Life being included in the London CIV.

9.3 **RESOLVED:**

That the 2015/2016 Business Plan and the 2016 Forward Work Plan be noted.

10 FUND FINANCIAL MANAGEMENT

10.1 Steven Mair presented the report and drew the Committee's attention to the recommendations. He advised that it had been expected that the consultation would have already taken place, however this would now be undertaken from the last week of November. Members noted that under the Markets in Financial Instruments Directive II rules due to come into force in January 2017, councils were to be defaulted to client retail status. The Local Government Association was also in discussions with the Financial Conduct

Authority to consider if any changes can be made to smooth the processes involved for local authorities in relation to their pension functions.

10.2 Members commented that it would be desirable that the ending of the Investment Adviser Contract tied in with the ending of the one at Hammersmith and Fulham Council. A Member sought further explanation about a high risk identified in relation to operational administration regarding failure of payments to scheme members and supplier payments and was it related to the move to BT. Steve Mair responded that the move to BT was partly attributable to the problems experienced and that the Council was working with Surrey County Council to resolve the problem. In the meantime, a ‘workaround’ solution was in place to ensure the payments were made.

10.3 **RESOLVED:**

1. That the updated risk register for the Pension Fund be approved.
2. That the Fund’s position against the Investment Regulations be noted.
3. That the Class Actions update be noted.
4. That the information regarding the pooling of investments in the LGPS be noted.
5. That the information regarding the Markets in Financial Instruments Directive II be noted; and
6. That the extension of the current Investment Adviser contract with Deloitte to 31 October 2016 be approved.

11 CASH FLOW MONITORING AND STRATEGY

11.1 Steven Mair introduced the report and advised that more funds needed to be generated to meet the Fund’s requirements. Members noted that in order to address immediate cash flow requirements, a £20 million disinvestment from Legal and General was proposed. A more structured approach to disinvestment was also proposed with a monthly programme of cash transfers from the fund managers to the Fund’s back account.

11.2 Members recognised that the pension scheme was maturing and that the pay outs to scheme members should be undertaken in a systematic manner. It was queried why the total of £24 million per annum proposed in the monthly programme of cash transfers could not be paid in as one lump payment.

11.3 In reply, Neil Sellstrom advised that £2 million monthly payments were proposed as this replicated the monthly cash deficit and so it made investment sense, as well as ensuring lower transactional costs. Members noted that 50% of the payments would be derived from income and the other 50% from disinvestments from Legal and General.

11.4 **RESOLVED:**

1. That the cashflow position of the Fund be noted.

2. That the strategy for managing the cash flow position using investment income and structured disinvestment be approved; and

3. That the disinvestment of £20 million from Legal & General in December 2015 be approved.

12 QUARTERLY PERFORMANCE REPORT

12.1 Alistair Sutherland (Deloitte) presented the report updating Members on the Fund’s quarterly performance. He advised that overall the Fund had underperformed its composite benchmark by 58bps in the third quarter of 2015, largely as a result of the weak performance from one of the active equity managers, Majedie, and because of the overall poor performance of equities in the quarter. Alistair Sutherland then advised Members of the performance of each of the Fund’s managers.

12.2 Alistair Sutherland advised that Deloitte was working with Legal and General with regard to looking at options on how it could be moved to the London CIV platform as a single mandate. Similarly, Majedie had expressed its interest in being involved with the CIV.

12.3 Members enquired whether Longview had indicated any interest in being involved with the CIV. Alistair Sutherland advised that Longview did not seem as enthusiastic as other fund managers in being part of the CIV, although discussions with them continued.

12.4 **RESOLVED:**

That the covering report, the performance report from Deloitte and the current actuarial assumptions and valuation be noted.

13 MINUTES

13.1 **RESOLVED:**

That the confidential Minutes of the meeting held on 8 September 2015 be signed by the Chairman as a correct record of proceedings.

14 INVESTMENT STRATEGY - BONDS

14.1 The Committee considered a confidential report on investment strategy.

The Meeting ended at 8.50 pm

CHAIRMAN: __________________________ **DATE** ________________________