MINUTES OF THE MEETING OF THE PENSION POLICY & INVESTMENT COMMITTEE HELD ON THURSDAY, 13TH JUNE, 2019

MEMBERS: Councillors Yasemin Brett, Ergun Eren, Tim Leaver, Claire Stewart, Doug Taylor and Carolan Dobson (Independent Advisor)

Officers: Paul Reddaway (Assistant Head of Finance), Matt Bowmer (Interim Director of Finance), Gareth Robinson (Head of Finance) and Penelope Williams (Secretary)

Also Attending: Councillor Derek Levy, David Carpenter (AON), Jo Peach (AON) , Jonathan Teasdale (AON)

1. ELECTION OF CHAIR AND VICE CHAIR

Councillor Tim Leaver was elected Chair and Councillor Claire Stewart Vice Chair of the Pension Policy and Investment Committee.

2. WELCOME AND INTRODUCTIONS

The new chair welcomed everyone to the meeting and members introduced themselves.

3. DECLARATION OF INTERESTS

Councillor Yasemin Brett declared a non-pecuniary interest as her son works for JP Morgan.

Councillor Claire Stewart declared a non-pecuniary interest as one of her family was a member of the Local Government Pension Scheme and of Unison.

Carolan Dobson declared a non-pecuniary interest as a non-executive director of the London Collective Investment Vehicle.

Councillor Tim Leaver declared a non-pecuniary interest as a director of one of the Council companies.

Councillor Doug Taylor declared a non-pecuniary interest as a director of Capel Manor College.

Councillor Ergun Eren declared a non-pecuniary interest in CBRE group.

4. STANDING ITEMS

NOTED

1. In future all four standing items would be included on every agenda and that a governance update would be provided to the next meeting.

2. A glossary of terms including a list of acronyms would be circulated to all members.

1. Risk Register

The Committee received the Council's risk register setting out key risks, actions in place to address them, any progress made, risk categories and a lead officer responsible.

NOTED

1. Paul Reddaway's advice that:

    - In relation to PEN 08 Succession Planning that two experienced officers had recently been recruited to replace him as he was due to retire in September.

    - There were no issues in other areas. All employers in the scheme had paid in a timely manner. The valuation of the fund was the subject of a further report and was not seen to be a major risk at present.

2. Climate change and BREXIT would be added to the list of risks although these issues would already be included when considering fund allocations. Because of the diversity of investments across many different areas the risks in these areas were less.

3. The list of risks was not exhaustive and other issues could be added. Valuation including the threat from the resolution of the McCloud case would be included in the next report.

4. Comment was made that it was the committee's role was to fully understand risks, that the risk from Paul Reddaway's departure should continue to be included and that there was also a risk that members of the committee were not properly trained to understand their role. Training was an issue that the Pension Regulator would take an interest in and would be discussed later in the meeting. MiFID (Markets in Financial Instruments Directive) requirements were that any new member should be trained within 3 months of taking up a position on the committee.

5. A more detailed risk analysis was usually given to the Audit and Risk Management Committee but could also be provided to this committee.

6. Lack of continuity amongst the membership of the committee could be a risk.

7. Carolan Dobson (Independent Advisor) felt that the mortality assumptions should be rated as a medium/large risk.

2. London Collective Investment Vehicle (LCIV)

NOTED

1. A new chief officer had been appointed. Paul Reddaway would circulate their details.

2. A representative from the LCIV would be invited to attend the next meeting.

3. A management team at the fund Henderson, which the LCIV had bought into, had recently resigned leading to a review of the investment.

5. MINUTES OF THE LAST MEETING - 28 FEBRUARY 2019

The minutes of the meeting held on 28 February 2019 were agreed as a correct record.

6. COMMITTEE TRAINING PROGRAMME

The Committee received a report from Paul Reddaway on a possible training programme to be devised for the committee. (Report No: 20)

NOTED

1. The Local Government Association ran a three-day course investment training course. (10 and 30 October and 4 December 2019). The list of items covered was set out in Appendix 3. All members were encouraged to attend.
2. Paul Reddaway planned to hold a series of short hour-long training sessions over July, August and September. A timetable would be circulated.
3. Members were also encouraged to complete the online Pension Regulator Public Sector Tool Kit as set out in Appendix 1. This would provide necessary evidence and a good record of training undertaken.
4. A training session on ESG (Environmental and Social Governance) would be held early on. An earlier session had been planned, but it had been agreed to wait until after the new committee had been appointed.
5. The committee’s role was as trustees of the pension fund, not the Council. The fund covered a total of 33 employers, not just the

Council. The trustees were there to protect the interests of all the members of the pension fund.

6. Briefing sessions on specific topics would also be held before meetings.
7. An analysis of the Pension Fund accounts was thought to be a good starting point to understand the work of the committee.
8. An agenda setting meeting would be held with the Chair before all meetings.
9. Paul Reddaway would email members with press updates on key issues as they arose.
10. All training undertaken would need to be evidenced.

AGREED that the committee would undertake ongoing training to meet the requirements of being classed as a professional investor (MiFID II) and to be in line with the Pension Regulator Requirements.

7. PENSION STRATEGY BUSINESS PLAN 2019/20

The Committee received the report of Paul Reddaway on the Pension Strategy Business Plan 2019/20.

NOTED

1. The report provided an overview of the Investment Strategy Business Plan describing the different investment areas and building blocks indicating where the committee’s priorities should be when considering their work for this year.

2. There is an overall objective to reduce the deficit which, at the time of the last actuarial valuation 3 years ago, was at 87%.

3. More detailed quarterly reports were provided on the performance of the various investments. This paper was just to give a high-level overview for new members.

4. Concern was expressed about a lack of information on any plan for recovery of the deficit, of comparable data, and of an explanation for the current position of the fund or where it was heading.

5. Training would be provided on the detailed investment and funding strategies on another occasion.

6. Agreement that the title of the report could be seen to be misleading.

7. Daniel Carpenter (AON) said that he was happy to talk to committee members in detail about the investment strategy.

AGREED to note the report.

8. DRAFT PENSION FUND ACCOUNTS 2018/19

The Committee received a copy of the Pension Fund Accounts for 2018/19.

NOTED

1. Over the past year the pension fund has grown mainly due to the favourable equity markets. Cash flow was positive. Contributions were higher than pension payments.
2. It was anticipated that this situation will deteriorate over the next 4-5 years. Other London pension funds had negative cash flows.
3. There had been an improvement in the liquidity of investments.
4. In future the fund will reduce the number of hedge fund managers. Some have not performed as well as expected, so fees have been lower.
5. The Enfield fund is not typical as it is more complex and more diverse than some of the other London funds.
6. Enfield holds investments at three different levels. Level 1 is those assets which are easily liquidated. Level 2 is those where quoted market prices are not available and Level 3 are hard to value long term investments. For example, Enfield had invested in Adam Street Partners in 2003. Its first investment has only just been realised. Through this fund Enfield had been an early investor in Facebook. These investments in general had a 8-9% rate of return.
7. Enfield had benefited in the past year from currency fluctuations particularly with the dollar which had increased by 24.8%.
8. Government requirements meant that more and more new investments will have to be invested in the London Collective Investment Vehicle (LCIV). This had been valued on 21 March 2019.
9. The report was presented in a format complying to the CIPFA code of practice. A different format will be used, and more detail provided, in the Annual Report for 2018/19, tying the figures back to the strategic allocations.
10. Investment management was stable and there had been increased returns. Oversight and governance costs had reduced mainly because the hedge portfolio was gradually being run down. In general Enfield costs were higher than average because of the variety of fund managers but this provided greater diversity and insurance against bad markets.
11. The fund had started to simplify its holdings to be in alignment with the Government's pooling agenda.
12. The fully audited report would be bought back to a later meeting of the Committee.

AGREED to note the pension fund accounts for 2018/19.

9. QUARTERLY PERFORMANCE REPORT - 31 MARCH 2019

Discussion on this item took part in the part 2 section of the meeting.

10. 2019 ACTUARIAL VALUATION - UPDATE

The Committee received a report updating them on the actuarial valuation. (Report No: 24)

Jonathan Teasdale from AON presented the information to members.

NOTED

1. Actuarial valuations took place every three years, although in future there is a proposal that this will change to every four years.
2. Evaluation outcomes will be available by the end of September 2019.
3. The main aims of the valuation are to compare assets with liabilities, determine the employer contribution rates and to ensure that the legal and regulatory requirements are met. These are based on assumptions to estimate how much money is needed to meet the needs of the fund’s pensioners.
4. The valuation was a chance to see what the results look like, to make changes to the strategic and long-term financial objectives and take decisions on the level of acceptable risks.
5. There was a legal requirement to be prudent. Currently the probability of funding success is 69%. This had to be well above 50%. If more money is needed, then the employer contribution rates will have to be increased. Employee rates are fixed by Government.
6. At the time of the last valuation, in 2016, the funding ratio was 87%. A plan was put in place to eliminate this deficit over 19 years. This year it was expected that the headline figure would be more favourable, as asset returns in global markets had been good and improvements in life expectancy had slowed down. This will probably mean that employer contribution rates will not have to increase. The aim was to achieve 100% funding.
7. There is some additional uncertainty related to the McCloud case which would be explained at a later meeting.
8. A timetable for the process had been agreed in March 2019, an employers’ meeting held in December and a funding strategy statement was due in early July. Training on the valuation process would be prioritised.

AGREED to note the report.

11. BOND PORTFOLIO CONSIDERATIONS

Discussions on this item took part in the part 2 section of the meeting.

12. ANY OTHER BUSINESS

1. **Environmental Social and Governance (ESG)** – This was a complicated issue that needed further debate. There were differing views as to how best to address the issues. Some thought that we should divest from all fossil fuels and others believed in active engagement to screen out environmentally damaging investments.

More information was needed to fully understand this and other ethical investment issues. Enfield would need to work on this with the other boroughs in the LCIV. Training would be provided at an early date.

13. DATES FOR FUTURE MEETINGS

NOTED the dates agreed for future meetings:

- Thursday 5 September 2019
- Thursday 21 November 2019
- Thursday 27 February 2020

In future all meetings would take place at the Enfield Civic Centre, at 10.45am, unless otherwise indicated.

14. EXCLUSION OF PRESS AND PUBLIC

RESOLVED, in accordance with Section 100(A) of the Local Government Act 1972 to exclude the press and public from the meeting for the items listed on part two of the agenda on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 (information relating to the financial or business affairs of any particular person (including the authority holding that information) of Part 1 of Schedule 12A to the Act (as amended by the Local Government (Access to Information) (Variation) Order 2006).

15. QUARTERLY PERFORMANCE REPORT - 31 MARCH 2019

The Committee received the Quarterly Investment Report, covering investments in the last quarter, up to 31 March 2019. Report No: 23.

NOTED

1. The differences in the figures in this report and the final accounts are accounted for by use of estimates on the basis of available information at the time.
2. There are two types of funds passive and active. Passive funds are less expensive and move in line with indexes. Active funds are managed, cost more, but can have higher returns.
3. Funds are over and under weight in relation to strategic allocations.
4. Equities were the long-term driver of the fund. At present the pension fund was overweight in these and was in the process of reducing investments closed to the level of the strategic allocation. Some equities were in the LCIV, but not all.
5. The fund was overweight in private equities.
6. Money in hedge funds was being reduced and no further investments were envisaged.
7. The fund only had money in the UK property market at present. There were no property funds in the LCIV currently, but this was due to change.

8. Investments in infrastructure were generally stable and secure. There were currently none of these type of investments in the LCIV.
9. Investments in bonds were generally defensive, as they were low risk, long term inflation protection. The Enfield fund was under-weight in these.
10. LCIV were closely monitoring the situation in one of the LCIV funds where fund managers had left. The LCIV had reacted very quickly to the changing situation. It is likely that the LCIV would leave this fund. This would involve some transitional costs.
11. There was an explanation of how funds were scored in the appendix.
12. In general, the funds had been well managed and had performed very well over the past 3 months

AGREED to note the contents of the report.

16. BOND PORTFOLIO CONSIDERATION

The committee received a report on bond portfolio considerations. (Report No: 25)

NOTED

1. At the last meeting an informal decision had been taken to withdraw from one fund and re-invest it in index linked bonds. This had not been acted upon as circumstances had changed and it was felt a formal recommendation, based on a fuller report, was needed.
2. Index linked gilts were expensive and had become even more expensive since the last meeting.
3. The pension fund was currently underweight in bonds and so it had been agreed that more investment should be put into these, thereby reducing risk and aligning back with the original strategy.
4. There was a total of £50m to be invested. Several options were available.
5. After discussion it was agreed that a further meeting would be held (possibly via skype) to make a firm decision based on a full report, including a full analysis of all the options.

AGREED to ask AON to work with Council officers to bring back a proposal on how to address the underweight bond position given the revised investment environment.