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PENSION POLICY & INVESTMENT COMMITTEE - 23.7.2020

MINUTES OF THE MEETING OF THE PENSION POLICY & INVESTMENT COMMITTEE HELD ON THURSDAY, 23 JULY 2020

MEMBERS: Tim Leaver (Chair), Claire Stewart, Ergun Eren, Doug Taylor, Derek Levy & Terence Neville OBE JP.

OFFICERS: Bola Tobun, Finance Manager, Pensions & Treasury
Fay Hammond, Executive Director of Resources
Penelope Williams, Governance & Scrutiny
Metin Halil, Governance & Scrutiny
Elaine Huckell, Governance & Scrutiny Secretary

Also Attending: Councillor Oykenner (Local Pension Board)
Daniel Carpenter, AON
Jo Peach, AON

1 WELCOME AND INTRODUCTION

Councillor Tim Leaver welcomed everyone to the virtual meeting which was the first meeting to be held since February. He gave a special welcome to Derek Levy who was a new member to the Committee.

Apologies for absence had been received from Matt Bowmer (Director of Finance) and Carolan Dobson (Independent Advisor)

Daniel Carpenter and Jo Peach were attending from AON and it was noted that their link was for audio only. It was hoped that in future it would be possible for them to view the meetings.

Attention was drawn to the need for the agenda to be circulated in good time to allow members to view all papers prior to the meeting. They must be circulated within 5 working days of the Committee meeting taking place.

2 DECLARATIONS OF INTERESTS

Councillor Oykenner declared a non-pecuniary interest as his sister works for the Council.

3 MINUTES FROM THE LAST MEETING

AGREED

The minutes of the meeting of 27 February 2020 were agreed.

Under the 'Declaration of Interests' for the last meeting it was stated that Councillor Neville had declared a non-pecuniary interest that a family member

was a Director of a Hedge Fund. Councillor Neville clarified that this referred to his son-in-law.

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INTERIM INVESTMENT STRATEGY STATEMENT

The Pensions & Treasury Finance Manager introduced this item she spoke to the report which set out a revised timetable for the development of the Fund's 2020 Investment Strategy following the 2019 actuarial valuation.

She highlighted the Investment Strategy Review Timetable shown at Appendix Y of the report.

It was noted that one of the proposals was to consider and approve that the fund reduce its total equity portfolio relative exposure to future emissions from fossil fuel reserves (measured in MtCO₂e – million tonnes of CO₂ emissions) by 50% in over the next 5 years (September 2025).

Councillor Taylor asked why it was decided to use the targets 50% in 5 years? How was this set of metrics arrived at?

The Pensions & Treasury Finance Manager said it takes time for levels to be reached, for example the LB Hackney have been going through a similar change and after a 3 year period an audit showed that a 40% reduction had been achieved.

She said she thought the targets proposed were achievable and a table could be prepared for the next meeting to show how various funds are progressing. Some local authorities had looked to make similar changes but had not been able to reach the zero- carbon target they had hoped for.

Following discussions, it was agreed that there was a need to determine whether targets /timeframe were reasonable and if targets were 'stretching enough'

Councillor Neville said any costs to the fund to enable ESG targets to be met should be clearly set out. It was noted that our 'investment beliefs' were still under discussion. He asked if there were any other material changes to the statement apart from ESG issues and had they been run by AON. It was noted this had not happened as it was an interim report.

The Chair summarised that this is a strategy and not a map, we would need to have an understanding of the costs involved when we modify the portfolio. The ESG is informing our decision in the same way that a portfolio switch would do between classes, it is difficult to show this until we make the changes.

These could be considered to be arbitrary targets, we need to have a review mechanism – reviewed on a six- monthly basis by the Committee and giving costs involved. Comparability figures for other funds and schemes should be provided to help in this process.

AGREED

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- 1) Noted the timetable for development of the 2020 investment strategy attached as Appendix Y to the report:
- 2) That the fund reduce its total equity portfolio relative exposure to future emissions from fossil fuel reserves (measured in MtCO₂e – million tonnes of CO₂ emissions) by 50% in over the next 5 years. (September 2025);
- 3) To approve the fund measure the reduction relative to the Fund's total equity portfolio position as at 30 September 2019 and adjusted for Assets Under Management (£AUM);
- 4) To approve the interim Investment Strategy Statement (ISS) attached as Appendix Z of the report
- 5) Targets would be reviewed at the next Pension Policy & Investment Committee meeting in September using comparability to other funds and schemes. Targets would thereafter be reviewed on a six- monthly basis by the Committee.

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DRAFT PENSION FUND ACCOUNTS 2019/20

The Committee received the draft Pension Fund Year End Financial Statements for 2019/20 from the Pensions and Treasury Finance Manager.

The Pensions and Treasury Finance Manager highlighted that we were waiting for auditors' approval but that currently no contentious issues had been raised.

Figures given in the report show the Enfield Pension Fund ranking and returns. The update position at the end of March 2020 indicated a weakened funding level position of 96% however due to market volatility this had 'bounced back' by the end of June 2020 and would now be considered to be at approximately 101% to 103% funding level.

Councillor Neville suggested that it would be helpful if future reports could focus on those areas where there were differences/ variances and provide a brief note on each.

Councillor Taylor drew attention to two amendments to be made relating to Note 25 in the Pension Fund Accounts -2019/20 – under 'Governance' it states that Enfield Council has decided that councillors should not be allowed to join the LGPS scheme. Cllr Taylor pointed out that this is the statutory, national position. He also mentioned that he was no longer a Governor of Capel Manor, a scheduled body.

NOTED

1. The contents of the report

AGREED

1. The Committee noted and considered the draft Pension Fund Financial Statements for 2019/20
2. The Committee noted the Enfield Pension Fund ranking and returns as prepared and produced by PIRC (Pensions & Investment Research

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Consultants Ltd) UK Local Authority League table for 2019/20, set in section 25 to 28 and appendix B of the report.

The Chair thanked Fay Hammond and her team for their achievements in providing end of year figures in the current circumstances and said he awaits the final sign-off re the Pension Fund Accounts.

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QUARTERLY PERFORMANCE REPORT - 31 MARCH 2020

The Committee received the Quarterly Performance Report from the Pensions and Treasury Finance Manager.

The Pensions and Treasury Finance Manager highlighted that at the end of March 2020 the Fund stood at £1,169m which was a reduction of £94m from its value of £1,263m as at 31 December 2019. However, by the end of June the position of the fund is £1,266m and has returned to its position as of December 2019.

Councillor Levy voiced his concerns about the high level of cash in the Fund and also on the performance levels of the London Collective Investment Vehicle (LCIV) , (item 8 on the agenda).

NOTED

1. The report

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KEY DEVELOPMENTS, ECONOMIC AND MARKET OUTLOOK

The Committee received a presentation from Daniel Carpenter and Jo Peach from AON.

The presentation 'Market Update and June Valuation' highlighted market reactions as a result of the pandemic including Equities, Bond yields etc and looked at future economic prospects. It gave the latest valuation of our fund assets as at the end of June 2020. An Equity Manager Update was given on Baillie Gifford and Longview. It also provided an update on the Lansdowne Developed Market Fund.

The following key points made

- Markets have bounced back sharply recovering bulk of its losses since the start of the pandemic – unprecedented fiscal and monetary stimulus measures boosted
- Sustainable gains from here look more difficult with valuations looking stretched
- Market appreciation has ruled out scope to add to equity portfolios
- Diversification has paid off during volatile market conditions AON believe it retains an important role in portfolios given the degree of market uncertainty.

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Councillor Leaver spoke about the need for caution when facing a potential second wave of the pandemic.

Councillor Taylor spoke about previous expressed concerns from Councillor Levy about the high cash levels in the Fund and whether AON had advice on moving this in the short term.

They responded that there were challenges in terms of cash being at a higher level than normal. We should be mindful that we are still drawing down proceeds to fund mandates over the course of this year. Also there is an upcoming investment strategy review which would look at this. In this environment of increased market volatility need to look at capital preservation for example investing in absolute return bonds or looking at areas such as multi asset credit.

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LONDON COLLECTIVE INVESTMENT VEHICLE (LCIV) QUARTERLY UPDATE

The Pensions & Treasury Finance Manager presented a report which provided a summary of London Collective Investment Vehicle (CIV) an update of the Company's first Annual Review and the Statutory Report and Financial Statements for the year to 31 March 2020.

NOTED

1. The contents of the report

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LOCAL GOVERNMENT PENSION SCHEME LATEST DEVELOPMENTS AND UPDATE

The Pensions & Treasury Finance Manager presented a report on the Local Government Pension Scheme Latest Developments and highlighted the following:

- McCloud case – MHCLG consultation proposals
- Impact of Covid 19 and consideration for funds
- Increased cyber risks
- RPI consultation
- Supreme court decision on LGPS

NOTED

1. The report

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REVIEW OF ENFIELD PENSION FUND BUSINESS PLAN, BUDGET AND PPIC WORK PLAN FOR 2020/21

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The committee received this report which reviews the business plan for the Pension fund and presents the budget for the Pension fund for 2020/ 21 along with the outturn for 2019/20.

The Pensions and Treasury Finance Manager highlighted the budget set for next year and the business plan including more workshops to be held on ESG issues. She said the AGM will need to be scheduled in for the end of the year.

Councillor Taylor drew attention to the Business Plan, he understands London CIV have provided local authorities with a schedule of costs and charges which would be useful for members to see, he said some areas were contentious regarding implicit charges. Useful to see how charges calculated. The Pensions and Treasury Finance Manager would arrange for this to be provided.

It had previously been requested that an additional two meetings of the committee be held during the year to allow for shorter meetings. The Pensions and Treasury Finance Manager would discuss this with the Governance team.

Councillor Leaver highlighted

- The need to reforecast our accounts and provide an update for the November/ December meeting. We may need to look at liquidity issues at this time.
- It was necessary to ensure the training opportunities, for example in relation to ESG issues, go ahead.
- Work is needed with the Pension Board to ensure that an AGM goes ahead preferably in November/ December to engage with pension fund members.

AGREED

1. Noted and approved the Business Plan attached as Appendix 1 of the report
2. Noted and approved the revised work plan for 2020/21 attached as Appendix 2 and
3. Noted and approved the Revenue Budget for 2020/21 attached as Appendix 3
4. London CIV schedule of costs and charges to be made available to members

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REVIEW TRAINING AND DEVELOPMENT POLICY, MEMBER TRAINING NEEDS ANALYSIS AND TRAINING RECORD LOG

AGREED

This item to be postponed to the next meeting.

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PROCUREMENT OF SERVICES UPDATE

The Pensions & Treasury Finance Manager updated the Committee

AGREED

That the procurement process should continue

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ANY OTHER BUSINESS

Councillor Neville expressed his concern about Property – the closure of high street shops will have an effect on values and the increased prevalence of working from home may mean that office/ commercial values may drop – we need to be mindful of this as he thought approximately 10% of our assets are in property he asked AON representative for his thoughts on this.

He answered that he shared Councillor Neville's concerns regarding real estate values frozen at the moment with a lag in commercial property values . Also income from rents reducing, in the longer term property still has a role to play but in the short term may be problems and would not suggest an increase in property assets at present.

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DATES OF FUTURE MEETINGS

It was suggested that the date of the next meeting of the Committee take place on Thursday 17 September 2020 at 9.30am.

The following meeting to be held Thursday 26 November 2020

Dates for meetings for the remainder of the Municipal year to be reviewed to allow for additional meeting.

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