

MINUTES OF PENSIONS PANEL

Wednesday, 15 March 2017
(6:00 - 6:53 pm)

Members Present: Cllr Dominic Twomey (Chair), Cllr Faraaz Shaukat (Deputy Chair), Cllr Sade Bright, Cllr James Ogungbose, Cllr Jeff Wade and Cllr John White

Observers Present: John Headley and Gavin Palmer

Advisors Present: John Raisin, Colin Cartwright and Joe Peach

Apologies: Cllr Edna Fergus and Bernie Hanreck

28. Declaration of Members' Interests

There were no declarations of interest.

29. Minutes (14 December 2016)

The minutes of the meeting held on 14 December 2016 were confirmed as correct.

30. Independent Advisor

This report outlined the role of the London Borough of Barking and Dagenham Pension Fund's Independent Advisor. The report included a review of the work the Independent Advisor's work during the past year.

Members considered that the Advisor contributed a great deal to the work of the Panel, particularly in terms of the investment strategy. He is available to discuss issues and answer queries with Members and Officers and his contact details would be shared with Members.

Members agreed to extend agree to extend the Independent Advisors role, currently carried out by John Raisin Financial Services Limited, as the Panel's investment advisors for one year based on the revised job description included as appendix 1 of the report.

31. Pension Fund Quarterly Monitoring 2016/17 - September to December 2016

This report provided information for employers, members of London Borough of Barking and Dagenham Pension Fund ("the Fund") and other interested parties on how the Fund had performed during the quarter 1 October 2016 to 31 December 2016 ("Q4"). The report updated the Panel on the Fund's investment strategy and its investment performance. Due to the technical nature of this report, Appendix 2 provided a definition of terms used in this report and Appendix 3 set out roles and responsibilities of the parties referred to throughout this report.

The Group Manager, Pensions and Treasury (GMPT) introduced the report and

stated that the Fund's externally managed assets closed at Quarter 4 (Q4) in 2016/17 valued at £869.6, an increase of £25.4m from its value of £844.2m as at 30 September 2016. The cash value held by the Council at 31 December 2016 was £12.7m giving a total Fund value of £882.3m. For Q4 the Fund returned 3.7%, net of manager and custodian fees, outperforming its benchmark by 0.1%. Over one year the Fund returned 16.7%, outperforming its benchmark of by 1.1%. Over three years the Fund trails its benchmark by 0.3%, providing a return of 9.8.

The GMPT provided an oral update on the unaudited performance of the Fund for the period 1 January to 12 March 2017. He reported on the performance of each Fund Manager. In particular he highlighted the under-performance of BlackRock and Aberdeen Asset Management (AAM). The GMPT also advised Members that AAM are merging with Standard Life and Members would be updated on the implications of this for the Fund.

Colin Cartwright (Aon Hewitt) referred to the current level of interest rates which remained very low and noted that the Federal Reserve in the United States would be raising their interest rates in 2017. It was not known how long the interest rates in the UK would remain at the current low levels. They may rise in 2017 although growth in Europe and Japan remained poor. A rise in bond yields has the potential to lower the Fund's liabilities.

John Headley (UEL) noted that the previous performance reports contained peer group rankings. The GMPT advised that WM no longer provided this information and that there were some delays in obtaining a replacement service but that this should be available later this year.

The Chair, on behalf of the Panel accorded his thanks to the GMPT and Aon Hewitt for their training session delivered to Members on 13 March 2017 and requested that copies of the presentations should be e-mailed to Panel members.

The Panel noted:

- (i) The progress on the strategy development within the Pension Fund;
- (ii) The daily value movements of the Fund's assets and liabilities outlined in Appendix 1; and
- (iii) The quarterly performance of pension funds collectively and the performance of the fund managers individually;

Members agreed that AAM should attend the next Panel to discuss their performance and the Merger.

32. Administration and Governance report

It was best practice for Members of the Panel to receive regular administration data and governance updates. Administration data included cash flow, member numbers, governance and consultations. The report covered the following areas:

- Pension Fund Budget 1 April 2017 to 31 March 2020;
- Cash flow to 31 January 2017;

- Pension Options for Arms Lengths Service Delivery Units;
- LGPS Reform update; and
- London Collective Investment Vehicle (CIV) Budget requirements

The report was introduced by the Director of Finance (DF). She highlighted that the Pension Fund was forecast to end the financial year at around 78.5% and that the Fund had slightly outperformed its return budget.

As part of the Council's transformation process, several arms lengths service delivery units (Delivery Unit) would be agreed over the coming year. The setting up each Delivery Unit would require the TUPE (Transfer of Undertakings-Protection of Employment) transfer of staff and as a result each Delivery Unit would need to be admitted as a separate employer to the Fund. The Council was looking to create several different service delivery vehicles including, transferring its Leisure Services and establishing a company, Be First, to manage the implementation of its investment and regeneration strategy. In addition, a number of Traded Services will be set up. Currently the Council is reviewing several options available to it under the Fund's Admissions Policy and these will be reported back for Panel agreement in June 2017.

On 8 February 2017, the Joint Committee agreed the 2017/18 London CIV budget. As a result, the Fund has to pay £25k (+ VAT) as a service charge and £75k (+VAT) development funding charge. This charge will significantly reduce the savings the Fund is expected to make from the reduced Fund manager fees it is paying. There is an expectation that these costs will reduce over time and will be replaced by a service charge on the assets invested through the CIV but this is unlikely to happen before 2020.

The GMPT added that the Fund had a net saving of £120K from fees for 2016/17. The London CIV were looking to appoint Equities Managers in the next few months. He advised that the current equity manager for the Barking and Dagenham LGPS (Kempen) had not been shortlisted and that a review of Kempen would likely take place in early 2018.

The Panel noted:

- i. That the Fund is cash flow positive;
- ii. The Fund's three-year budget for the period 1 April 2016 to 31 March 2019;
- iii. The Fund's 2016/17 cash flow is forecast to be significantly higher than the budgeted cash flow, predominantly due to investment returns;
- iv. That as part of the Council's transformation process, several arms lengths service delivery units (Delivery Unit) will be agreed over the coming year, with a full report to be presented to the June 2017 Panel;
- v. The update on the LGPS reforms; and
- vi. The Fund has to pay £25k (+ VAT) as a service charge and £75k (+VAT) development funding charge to the London CIV in April 2017.

33. Business Plan Update 2017

The purpose of this report was to update the Pension Panel on progress regarding the Pension Fund's 2017 business plan. Appendix 1 provided a summary of the Business Plan actions from 1 January 2017 to 28 February 2017 and the actions for the remainder of the year.

The Panel noted the report.

34. Draft Funding Strategy Statement and Investment Strategy Statement

The Pensions Panel is required to agree the aims and objectives outlined within the Pension Fund's Governance and Investment strategies. Following the triennial valuation two key strategy documents needed to be reviewed and updated. These documents were the Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS). These documents outlined the Fund's funding and investment strategy and have been updated to meet statutory requirements and guidance from the Department of Communities and Local Government and the Scheme Advisory Board. Both documents were summarised in this report, with the draft statements included as appendices in the report. Both reports had been reviewed and agreed by the Pension Board as part of its review of decision making within the Fund.

It was noted that the draft statements needed to be approved by 1 April 2017. A future report on the Strategy Review including CIV updates would be provided to the meeting in June 2017.

The Independent Advisor outlined the main changes to the ISS and the reasons for the ISS, including:

- Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as Amended)
- Removing Schedule 1 to the 2009 Regulations which placed % based restrictions on the nature of investments LGPS Funds could make and replacing this with a "*prudent person*" approach similar to that which applies to private sector Defined Benefit Pension Schemes. Under the proposed revised approach, it would be a matter for each LGPS Fund to determine the mix and balance of its investments taking risk into account
- Further deregulation particularly in relation to the appointment and review of external Investment Managers
- The replacement of the existing requirement for each LGPS Fund to define its investment strategy in a Statement of Investment Principles (SIP) with a requirement to prepare and approve an Investment Strategy Statement (ISS)
- A requirement for each LGPS Fund to define its approach to Investment Pooling (part of draft Regulation 7)
- A proposed power for the Secretary of State (draft Regulation 8) to issue

directions to an LGPS Fund in relation to investment matters where the Secretary of State had determined that the Fund had failed to have regard to the requirements of regulation and guidance

The Panel agreed:

- i. The draft Funding Strategy; and
- ii. The draft Investment Strategy Statement.

The Panel noted:

That these final actuarial valuation results, along with the Rates and Adjustments Certificate will be provided by the actuary by 31 March 2017.