MINUTES OF
PENSIONS COMMITTEE

Wednesday, 12 December 2018
(7:05 - 8:35 pm)

Members Present: Cllr Giasuddin Miah (Deputy Chair in the Chair), Cllr Sade Bright, Cllr Laila M. Butt, Cllr Kashif Haroon, Cllr Adegboyega Oluwole and Cllr Foyzur Rahman

Observers Present: Susan Parkin

Advisors Present: John Raisin and Colin Cartwright

Apologies: Cllr Dave Miles, Dean Curtis and Joe Peach

14. Declaration of Members' Interests

There were no declarations of interest.

15. Minutes - To confirm as correct the minutes of the meeting held on 19 September 2018

The minutes of the meeting held on 19 September 2018 were confirmed as correct.

16. Minutes of the Pension Board

The minutes of the Pension Board held on 19 September 2018 were noted.

17. Training- Considerations which may legitimately influence Decision Making

John Raisin, the Independent Adviser, introduced training on the considerations which may legitimately influence Decision-Making as follows:

- Breadth of the Role and Responsibility of the Pensions Committee for Investment issues
- Guidance on considerations that may legitimately influence Investment decisions
- LGPS Investment Regulations 2016
- Environmental, Social and Governance (ESG) issues and Investment decision making
- The Financial Return must be the *"predominant concern"*
- Opinion of Nigel Giffin QC – Duties of Administering Authorities
- Legitimate Investment decision making considerations – Conclusions

The key conclusions in the presentation were that:

- The Committee's primary consideration in relation to any investment must be the financial return
- The 2016 Investment Regulations and accompanying Statutory Guidance encourages consideration of ESG issues

- ESG issues may potentially be *“financially material”*
- Non-Financial issues can be taken into account but this must not result in a *“significant risk of financial detriment to the scheme.”*
- The Committee owe a fiduciary duty to all Fund Employers and individual Scheme Members
- The Committee cannot favour the interests of the LB Barking and Dagenham over those of other Employers in the Pension Fund

The Committee welcomed the presentation and asked questions relating to the Investment Strategy, which would be updated in April/May 2019 and a draft report would be submitted to the Committee meeting in March 2019.

18. Pension Fund Quarterly Monitoring Report

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 has performed during the quarter 1 July to 30 September 2018 (“Q3”). The report updated the Committee 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 Fund’s externally managed assets closed Q3 valued at £1,036.4m, an increase of £21.0m from its value of £1,015.4m at 30 June 2018. The cash value held by the Council at 30 September 2018 was £23.9m giving a total Fund value of £1,060.3m.

For Q3 the Fund returned 2.3%, net of fees, underperforming its benchmark by 1.0% and outperforming the PIRC LGPS Universe (PIRC) by 0.1%. Over one year the Fund returned 7.4%, underperforming its benchmark by 1.4% and underperforming PIRC by 0.4%. Over three years the Fund outperformed its benchmark by 0.3%, with a return of 12.2% and underperformed PIRC by 0.3%.

An oral update on the unaudited performance of the Fund for the period 1 October to 11 December 2018 was provided to the Committee.

It was noted that equities had been performing well up to now, however since October 2018, investors were concerned about the potential for a potential recession in the future, which had influenced equity markets performance.

The Investment Fund Manager highlighted that there were concerns about three fund Managers performance, namely: Bailie Gifford, Newton and Pyford and they would be reviewed in the near future. In addition, he highlighted that BlackRock were now investing in a hotel adjacent to Birmingham Airport. Also, it was advised that Standish (now called Mellon Corporation) had not performed well.

Members were concerned about underperforming Fund Managers and asked what action was taken in dealing with these. The Investment Fund Manager confirmed that not too much change had been made to the Investment Fund Strategy in the short term, however he assured the Committee that Managers have been and would be invited to address the Committee as part of a review, to explain the reasons for under-performance and that dismissals of Fund Managers can be recommended in certain cases. There was a report later in the agenda in relation to the Diversified Growth and Fixed Income Review in relation to relocation of funds from certain Fund Managers.

The Committee 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.

19. Administration and Governance Report

This report covered the following areas:

i. Pension Fund Budget 1 April 2018 to 31 March 2021;
ii. Cash flow to 31 October 2018; and
iii. Guaranteed Minimum Pension Reconciliation.

The Investment Fund Manager highlighted the Guaranteed Minimum Pension Reconciliation (GMPR), which is the minimum pension a scheme had to be provided for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. The amount is 'broadly equivalent' to the amount the member would have received had they not been contracted out.

Employees contributing to the LGPS were contracted out of the State Second Pension (S2P). As part of the ending of contracting out from April 2016 schemes were required to ensure that a member's pension is at least equivalent to what they would have earned under S2P, called the GMP. To do this the schemes records and those of the HMRC needed to be reconciled, with any differences resolved. The Investment Fund Manager advised that this reconciliation would be completed in March 2019 and that some pensioners had been overpaid, with letters being sent to those affected and their pensions reduced in future. A full report would be submitted to the March Committee.

The Committee noted:

i. That the Fund is cash flow positive;

ii. The Fund's three-year budget for the period 1 April 2018 to 31 March 2021; and

iii. Update on the Guaranteed Minimum Pension (GMP) Reconciliation.

The Committee agreed:

To delegate authority to the Chief Operating Officer to decide on the final approach taken to rectify the Fund's records and recover any overpayment and make good any underpayments as part of the GMP reconciliation.

20. Business Plan Update

The purpose of the report was to update the Committee on progress regarding the Pension Fund's 2018 business plan. Appendix 1 provided a summary of the Business Plan actions from 1 January 2018 to 30 November 2018 and the actions for the remainder of the year.

The Committee noted progress on the delivery of the 2018/19 Business Plan at Appendix 1 to the report.

21. Private business

22. *Diversified Growth and Fixed Income Review

At the Committee meeting on 19 September 2018, Members asked the Fund's advisers, AonHewitt (Aon), to review Fund's Diversified Growth Funds (DGF) and Fixed Income (FI allocation), with a report to be taken to the Committee in December 2018, covering:

i. DGF and FI Strategy Review;
ii. DGF and FI Manager Review;
iii. Review of the options and opportunities available through the London Collective Investment Vehicle (LCIV);
iv. Options available through investing passively for FI; and
v. Taking into consideration the destination portfolio.

Appendix 1 of the report contained the Aon DGF and FI review for Members to consider. The report contained recommendations from the Fund's Independent Adviser. Section 4 of this report provided officers views and recommendations, largely based on Aon's report.

The Committee noted:

(i) Aon Hewitt's Diversified Growth and Fixed Income Review (appendices 1 and 2)
(ii) The Independent Advisor's observations on the review (appendix 3); and
(iii) The officer strategy review and recommendations.

The Committee agreed:

(iv) That the Fund's current 18% target strategic allocation to Diversified Growth is reduced to 16%, which is in line with the Diversified Growth current allocation;
(v) That the Fund's allocation to Diversified Alternatives is increased from 6% to 8% through the Fund's current allocation to Aberdeen Standard, with the Funding to be provided through cash;
(vi) That officers arrange a meeting for Members to meet and interview the DGF managers on the LCIV and that the meeting is held with the following managers:

1. Baillie Gifford- growth style
2. Ruffer- capital preservation style

3. Pyford- capital preservation style
4. Newton- capital preservation style

(vii) Following the interviews that Members, following further guidance from advisers, agree an appropriate reallocation of funds to Diversified Growth.

The Committee agreed:

(viii) That the Fund's current 8% target strategic allocation to Credit is maintained;

(ix) That officers arrange a meeting for Members to meet and interview the managers on the LCIV and that the meeting is in line with the following strategies:

1. Global Bonds;
2. Mult-Asset Credit (Long Only)

(x) Following the interviews that Members, following further guidance from advisers, agree to remove funds from Standish and to reallocate funds to one or more of the LCIV global fund and multi-asset credit (long only) managers.

**Item considered following of the passing of a resolution to exclude the public and press by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).*