

Local Pension Board

Minutes of the Local Pension Board held on Wednesday 20 July 2016 at 11:00am at the Ground Floor Meeting Room G02a – 160 Tooley Street, London SE1 2QH

Present: Mike Ellsmore (Independent Chair)
Sue Plain – Scheme Member Representative
Norman Coombe – Employer Representative

Substitutes: Colleen Reid – Substitute Scheme Member Representative
Matthew Hunt – Substitute Employer Representative
Neil Tasker – Substitute Employee representative
Mike Pinder – Substitute Employer representative

Apologies: Jo Anson – Employer Representative
Bill White - Scheme Member Representative

Officers: Fay Hammond – Departmental Finance Manager
Malcolm Laird – Pensions Administration Manager
Caroline Watson – Divisional Accountant (Investments resource)
Yvonne Thompson-Hoyte – Board Secretary/Divisional Accountant
Treasury and Pensions

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1. Welcome and Apologies for Absence

- 1.1 The chair welcomed everyone to the meeting.
- 1.2 Apologies were tendered for Jo Anson and Bill White

2. Notice of intention to conduct business in a closed meeting

- 2.1 To note the item specified below will be conducted in a closed meeting

- Agenda Item 10 - Review of PAP meeting papers
- Agenda item 8 - Governance review of Pension Fund

Resolved: There were no representations relating to this item.

3. Disclosure of Interests & Dispensations

- 3.1 The Chair declared an interest in agenda item 7 *Local Pension Board Annual Report in particular the section containing fees paid to the Independent Chair of the board. , and in item 6 as a member of a trades union.*

4. Minutes of Last Meeting

- 4.1 **Resolved:**

That the minutes of the meeting held on 19 April 2016 was agreed as correct by the board and signed off by the chair.

5 Matters Arising

5.1 Governance Review – terms of engagement

- 5.1.1 In response to a query raised by Sue Plain at the last meeting regarding the independence and approach of the appointed service providers; Fay Hammond explained that AON Hewitt had provided assurance that the individual undertaking the review was new to Southwark and had no other engagement with the Council. They further confirmed that they would be using the relevant guidance and codes in carrying out the review

5.2 Indemnity Insurance Cover

- 5.2.1 Fay Hammond proposed that the Council re-issue the indemnity letters to provide assurance to Local Pension Board members that they would continue to be covered despite the Counsel report.
- 5.2.2 Mike Pinder pointed out that the Council's insurers had given assurance. The Chair indicated that a letter of reassurance was needed from the Council's insurers or a Senior Officer within the Council.

Resolved:

- 5.2.3 A letter of reassurance will be sought from the insurers or a Senior Officer.

5.3 Potential conflict of interest re pension fund property investment in the borough

- 5.3.1 Fay Hammond updated the board that the chair of the Pensions Advisory Panel (PAP) had recommended that this item be referred to the legal department for an opinion to be tabled and the next PAP meeting in August and that the resulting advice would be shared with the Board.
- 5.3.2 Sue Plain commented that it might be prudent to disclose this item as a potential conflict of interest regardless of the opinion of the legal department.

Resolved:

- 5.3.3 The Board will await the report from PAP

5.4 Action Plan on data cleansing

- 5.4.1 Malcolm Laird presented his report and explained that the data cleansing project was well under way and had just completed week 13. He further explained that the actuary was concerned about the huge gaps in data and also the need to use a generic date of birth for members because the actual dates had not been provided by the employers as the pension fund was currently going through a valuation and that they had indicated that they may need include a caveat in the valuation to reflect this.
- 5.4.2 Malcolm Laird also highlighted that there were a number of external bodies that have not yet supplied data including 25 schools and that it was of concern as the deadline for submission to the actuary was the end of July which coincides with the start of summer holidays.
- 5.4.3 He indicated that to keep the data current once captured that systems were being put in place to enable external bodies to submit their data electronically on a monthly basis.
- 5.4.4 He also indicated that the actuary was assisting with drafting an administration strategy that would be the equivalent of a service level agreement.
- 5.4.5 Neil Tasker queried whether it was the Council or the external bodies that would be paying for the data cleansing exercise and also whether the charging of fines for non-compliance was being built into the admission agreement.
- 5.4.6 Sue Plain also enquired whether letters had been sent to scheme members whose data is affected.
- 5.4.7 The Chair queried whether the valuation exercise would be delayed by the process
- 5.4.8 Malcom Laird indicated that it was being negotiated that the cost of the exercise would be split 20% to the pension fund and the remaining 80% to employers. He also explained that members would be written to once the exercise was complete and that he had sent correspondence in the past to scheme members with the date of birth indicated as 'not held' but that this had not triggered any response.

5.4.9 In terms of the effect on the timing of the valuation exercise, Malcolm explained that the actuary had agreed the time frame and that they felt getting good data would add value to the valuation exercise.

5.4.10 The Chair acknowledged that the administering authority was doing everything that they can to get the data up to date

Resolved:

5.4.11 That the Board should be updated at the next meeting.

6 General Updates

6.1 London Collective Investment Vehicle (CIV) Update

6.1.1 Fay Hammond advised the board that the all London Local Authorities were now members of the CIV. She further explained that Southwark Council was awaiting due diligence information relating to fees, transition costs and performance monitoring and also information on the ESG policies of the CIV ahead of any transition of investments. She also informed the meeting that the second response to the consultation was submitted by the CIV on behalf of all the members.

6.1.2 She further explained that one of the fund managers, Legal and General with whom the pension fund held passive investments, intended to transition into the CIV. This was now delayed from the expected July 2016 date due to government advice that the type of vehicle that they were going to use to transition the funds could not be used. This has subsequently been resolved and Southwark is now waiting for advice on the timing and conditions of the transfer of funds

6.1.3 The Chair suggested that it might be useful to invite a representative from the CIV to an LPB meeting. Sue Plain also requested a copy of the due diligence outcome when completed and a copy of the second response to the consultation.

6.1.4 Sue Plain raised concern that an additional decision making tier, the Joint Sectoral Committee, had been established by the CIV that had no staff or scheme member representation. She further requested that the Chair of the Pension Board make a request to the Chair of PAP to ask the CIV to consider scheme representation in their governance arrangements

6.1.5 The LPB Chair suggested that this could be raised at PAP by the Trade Union representative who attends the panel or at the National Scheme Advisory Board which also has Trade Union representation.

6.1.6 After further discussion there was a vote proposed by Sue Plain and seconded by Neil Tasker that the Chair of the LPB should raise the issue with the Chair of PAP

Resolved :

6.1.7 Fay Hammond will circulate a copy of the second consultation response to the Local Pension Board Members.

6.1.8 The Local Pension Board Agreed by unanimous vote that the Chair of the LPB should ask the Chair of PAP ask the CIV to consider scheme member representation on the Joint Sectoral Committee.

6.1.9 The motion was proposed by Norman Coombe and seconded by Sue Plain with all other members in favour.

6.2 CIPFA Local Pension Board Survey

6.2.1 Members of the board were asked to note the results of the survey commissioned by CIPFA to compare how each authority in England and Wales had implemented the requirements to establish a local pension board.

6.2.2 The Chair made the point that on average Southwark was in line with most other authorities. He also commented that it was important to have an officer attending on a regular basis to resolve the investment queries.

6.3 Resolved:

The Board noted the survey outcomes.

7. Local Pension Board Annual Report

Resolved:

7.1 That the annual report be approved for inclusion in the Pension Fund Annual Report

8. Review of Pension Fund Governance

8.1 Fay Hammond informed the board that Aon Hewitt was completing the final stages of interviews and that the draft report was imminent . She further explained that the findings of the review would be presented to the board at the next meeting.

Resolved:

8.4 The Board would receive the findings at the meeting in October 2016.

9 Training and Development

9.1 The Board discussed areas of interest that they would like to receive training on. Among them were topical issues like the London CIV ahead of Southwark Pension fund transferring mandates into it and also 'Brexit' at a later date to understand how it might impact on the investment strategy.

9.2 Sue Plain also reminded the board that the requested training on management fees was still outstanding and that the National Scheme Advisory Board have designed a template and set up a sub-group to examine fees using the 'Dutch model'. There were some names suggested that could be approached for training on fees, although it was difficult to identify an organisation which could cover all aspects ..

- 9.3 Malcolm Laird also suggested that there was a consultation out on the new 'Fair Deal' arrangements and perhaps this could be a training topic possibly in conjunction with PAP.

Resolved:

- 9.4 The Chair would meet with the Board Secretary and Officers to develop a training and work plan taking account of the suggestions for the next meeting.
- 9.5 Malcolm Laird left the meeting at this point and Caroline Watson joined for the review of the Pensions Advisory Panel Papers.

10 Review of Pensions Advisory Panel (PAP) Decisions

- 10.1 The LPB continued to agree that the explanation regarding the report on the performance of the dynamic diversified growth fund in the quarter to December was still not clear and as a result further clarification should be sought at the next PAP from Mercer.
- 10.2 The Chair commented that there needs to be assurance that the fund is performing and providing the intended protection.

Resolved:

- 10.3 That further clarification will be sought from Mercer at the next PAP
- 10.4 Sue Plain enquired whether recent reports in the news regarding disinvestments from Henderson property funds had any impact on the Southwark Pension Fund.
- 10.5 Caroline Watson explained that Southwark Pension Fund was not invested in the particular property fund affected and that the pension fund investments were in a closed institutional fund that safeguarded against a sudden run on the fund of the nature experienced by the open retail fund in question. She further explained that the pension fund investments were for the long term and could withstand short term falls in value.
- 10.5 The Local Pension Board reviewed the investment reports for the quarter to March 2016. Caroline Watson explained that the equities were performing well at the moment but were being monitored to see whether over time a currency hedge would be needed.
- 10.6 Sue Plain also sought clarification as to why the percentage of the fund invested in property broken down by asset class was 16.8% but for the same period when classified by fund manager was 17% in the valuation report. Neil Tasker also commented that an explanation should be added to the new property funds in the performance report to explain that they were currently incurring start up costs and the returns are expected in the future so it does not appear that they are just performing badly.

- 10.7 Sue Plain also enquired whether the fund had retained an independent advisor to replace the services that had recently ceased. She also expressed concern that the fund was without independent advice in the current climate and that this was also necessary to comply with the Myner's Principles.
- 10.8 Fay Hammond commented that it would be not a appropriate time to schedule training in understanding performance reports as the fund was in the process of changing providers.
- 10.9 Caroline Watson explained to the Board that additional access had been provided through the custodians system that allowed Southwark to produce its own performance reports with tailored commentary.
- 10.10 Members of the board enquired about the impact of the recent referendum for the United Kingdome to leave the European Union (Brexit) on the pension fund investments, in particular the impact on the sterling and gilts.
- 10.11 Caroline Watson explained that the advice from the consultants at the moment was not to make any sudden changes and that there would be a meeting with the fund consultants in the near future to review.

Resolved:

- 10.12 That close monitoring of investments would continue in light of Brexit and that more tailored comments would be added to investment performance report with the added access to the fund custodian system.

11 Any Other Business

- 11.1 There was no further business

12 Date of the next meeting

- 11a.1 The date of the next meeting is Monday October 10, 2016

The meeting ended at 12:45pm

Chair.....

Date.....