THE LONDON BOROUGH OF CAMDEN

At a meeting of the **PENSION COMMITTEE** held on **TUESDAY, 3RD MARCH, 2020** at 6.30 pm in Committee Room 2, Crowndale Centre, 218 Eversholt Street, London, NW1 1BD

MEMBERS OF THE COMMITTEE PRESENT

Councillors Rishi Madlani (Chair), Abdul Quadir, Lorna Russell and Shiva Tiwari

MEMBERS OF THE COMMITTEE ABSENT

Councillors Heather Johnson, Ranjit Singh and Stephen Stark

TRADE UNION OBSERVERS PRESENT

George Ekontang – Camden GMB (substitute)

The minutes should be read in conjunction with the agenda for the meeting. They are subject to approval and signature at the next meeting of the Pension Committee and any corrections approved at that meeting will be recorded in those minutes.

MINUTES

1. APOLOGIES

Apologies for absence were received from Councillors Johnson, Singh and Stark.

Apologies for late arrival were received from Councillors Mulholland, Russell and Tiwari.

2. DECLARATIONS BY MEMBERS OF PECUNIARY, NON-PECUNIARY AND ANY OTHER INTERESTS IN RESPECT OF ITEMS ON THIS AGENDA

There were no declarations.

3. DEPUTATIONS (IF ANY)

There were no deputations.

4. ANNOUNCEMENTS (IF ANY)

(a) Interim Chief Investment Officer from the London Collective Investments Vehicle (CIV)

The Chair welcomed Kevin Corrigan, Interim Chief Investment Officer from the London Collective Investment vehicle (CIV) to the meeting. Kevin Corrigan had been invited to present and update on the watch on CQS, the fixed income manager (Item 9 “Performance Report”). He would also stay for item 10 “London CIV progress report”.

(b) Thanks to Committee Members

Councillor Madlani thanked Councillor Johnson for attending the last LAPFF meeting and the CIV General Meeting. He also thanked Councillor Quadir for attending the Investment Manager meeting with Baillie Gifford and CQS.

(c) KMPG will rebrand as Isio

At the end of 2019, KPMG confirmed it had consented to the management buyout of its UK pension’s advisory wing by Exponent Private Equity. The new company would be called Isio and would be launching across eight locations in Britain, holding onto its 20 Partners and 500 staff. KPMG UK Head of Pensions, Andrew Coles, had been appointed as the Chief Executive Officer and Roger Siddle, an experienced private equity portfolio chairman with a background in professional services leadership, had been named Chair of the new company.

Councillor Madlani suggested that it would be useful to meet with officers of the new company to discuss its Environment Social Governance (ESG) policy.

(d) Investment Manager meeting

A provisional date of Tuesday, 26th May 2020, from 18:30 – 20:30, was suggested for the next Investment Manager meeting. Committee Members were asked to email Tony Wainwright, Treasury and Pensions Manager, to let him know if they were able to make that date or if not suggest alternative dates in May.

(e) Order of Business

The Chair proposed and it was agreed that item 16 “Engagement Report” be taken after item 8 as Directors of PIRC were present at the meeting for items 7, 8 and 16. The remaining items were considered in the order in which they appeared on the agenda.

5. NOTIFICATION OF ANY ITEMS OF BUSINESS THE CHAIR DECIDES TO TAKE AS URGENT

There was no urgent business.

6. MINUTES

The Committee was reminded that the Council, at its meeting on 25th November 2019, had agreed a motion regarding the climate and ecological emergency and fossil fuel investments, which it referred to the Pension Committee for attention. However, due to the timing of the two meetings it was not possible for officers to prepare a report for inclusion on the agenda, but the Committee was informed of the motion and that officers would be reporting to a future meeting.

It was noted that Isio and officers were looking at climate change in the context of investment strategy and would report to the July 2020 meeting.

ACTION BY: Executive Director Corporate Services.

RESOLVED –

THAT the minutes of the meeting held on 26th November 2019 be approved and signed as a correct record.

7. CORPORATE GOVERNANCE ANNUAL REVIEW

Consideration was given to a report of the Executive Director Corporate Services.

The Fund attached great importance to its voting rights on investments owned and had been voting on its shares at the Annual and Extraordinary General Meetings of companies since 1996, in order to add shareholder value by seeking to ensure that companies were soundly run. The Camden Pension Fund employed a corporate governance advisor, Pensions & Investment Research Consultants Ltd (PIRC), to review company voting resolutions and execute the proxy votes of the Fund in accordance with its policy.

The Committee noted the review and analysis of the voting that had been undertaken by the Fund during the calendar year to December 2019, as executed by PIRC and attached at Appendix A to the report.

Alan McDougall, Managing Director, PIRC, was in attendance at the meeting with Janice Hayward, Client Services Director and Ralph Neville Jones, Proxy Voting Service leader. Alan McDougall summarised the main findings of the report as follows:

- During the period under review the fund voted 11,099 resolutions (2018: 11,495) at 767 meetings (2018: 828).
- Of all meetings voted by the fund globally, 82.1% were AGMs (2018: 79%).
- In broad terms 91.8% of the meetings were in the UK (2018: 92%), 3.7% were in Europe (2018: 4.8%) and 2.7% were in North America (2018: 2.2%).
- The rest of the world accounted for 1.8% (2018: 1.1%) of all the meeting voted during 2019.

- The fund supported 7,977 resolutions or 72% of the resolutions that it voted on.
- Globally, the fund supported 76% of all directors who sought election.
- In the UK, in the case of remuneration reports, the fund supported 42% (2018: 41%) of resolutions and opposed 58% (2018: 59%). In the case of remuneration policies, the fund opposed more resolutions (70% (2018:75%)) than it supported (30% (2018: 25%)).
- In the UK, approving the appointment of the auditor, as a resolution category accounts for 352 of the resolutions voted, the fund opposed 221 of the resolutions voted in this category or 62.8%.

It was noted that the Ministry of Housing, Communities & Local Government (MHCLG) were due to publish a consultation to seek views on principles for a new code of practice on defined benefit pension scheme voting. The Head of Treasury and Financial Services said that Camden had not yet responded but would do so. Alan McDougall informed the Committee that the PIRC had responded separately from the LLAPF due to its diverse range of funds. The PIRC had replied that that it had found the proposed approach to be confusing and the aim of the consultation was not clear.

With regard to table 2 “Voting Outcomes” on page 33 of the agenda, Councillor Madlani asked for the reason why there had been one abstention. The Committee also wanted to know more about the “non-votes”, in particular which of the votes related to SDG issues. Alan McDougall agreed to write to the Committee in respect of these issues.

ACTION BY: Executive Director Corporate Services

It was noted that there was no information on the voting outcomes related to climate change issues as there was currently nothing in the guidelines relating to this. Councillor Madlani asked that a report be submitted next year which included voting outcomes relating to climate and ESG issues.

ACTION BY: Executive Director Corporate Services

The Committee was informed that the PIRC Spring Corporate Governance Round Up Seminar had been arranged to be held on 17th March 2020 from 10am to 2pm in the Harvey Goodwin Room, Church House, Westminster, London, SW1P 3NZ. It was free to attend for all PIRC clients. It was agreed that the Committee Officer would circulate details to all Committee Members.

ACTION BY: Executive Director Corporate Services

RESOLVED –

THAT the contents of this report be noted.

8. VOTING GUIDELINES

Consideration was given to a report of the Executive Director Corporate Services.

The Committee noted the proposed guidelines and forms the policy on which Camden would submit proxy voting on shares held in the Camden Pension Fund. The Fund regarded the exercise of voting rights attached to its investments as having great importance. The Camden Pension Fund employed a corporate governance advisor, PIRC, to review company voting resolutions and execute the proxy votes of the Fund in accordance with its policy.

The Committee noted the proposal for the 2020 Camden voting policy statement from PIRC as detailed in Appendix A to the report.

Alan McDougall, Managing Director, PIRC, was in attendance at the meeting with Janice Hayward, Client Services Director and Ralph Neville Jones, Proxy Voting Service leader. Alan McDougall highlighted the following changes to the policy, which incorporated amendments to the voting approach from the previous advisor, as well as changes to the markets in 2020:

- Oppose chair of the remuneration committee, where there were serious concerns over the remuneration policy or report. This would include at least one E, or two Ds in the rating for either the Remuneration Policy or the Report
- Oppose authorities to repurchase shares when proposed by Investment Trusts unless the board had made a clear, cogent and compelling case demonstrating both how the authority would benefit long- term shareowners and that the directors were not conflicted in recommending the authority
- Oppose Companies in the FTSE100 with excessive misalignment between actual and reported ratios between tangible and intangible assets.
- The term “Chairman” was being replaced with “Chair”
- In the case where LAPFF issued a voting alert and it conflicted with the PIRC recommendation it should override the PIRC recommendation. Any voting recommendation which was affected in this way would be recorded on a dedicated spreadsheet.

The Committee’s attention was drawn to Appendix C “The Sustainable Development Goals” (SDGs) and section 13 in particular. It was noted that PIRC currently did not explicitly refer to the Sustainability Goals, however PIRC did incorporate many elements of the SDGs into its Environmental Social and Governance (ESG) considerations when evaluating a company. This was then incorporated into PIRC’s report and recommendations.

With regard to questions on climate change and the environment, Alan McDougall replied that

- The Policy had been amended with regard to Report and Accounts (Appendix A), to state that where there was “no or inadequate policy regarding climate

change, including targets in line with the Paris Agreement" and "no or inadequate quantitative reporting in climate" would result in an opposing vote.
- In future, climate risk would feature in all final accounts.
- PIRC currently did not have a definition in respect of "adequate" policy regarding climate change. Alan McDougall felt that it would be useful to explain it with examples and agreed to send further information to Committee Members.

ACTION BY: Executive Director Corporate Services

Councillor Madlani suggested that for the next report it would be useful to include a review of Board level commitments and the amendment of voting guidelines.

ACTION BY: Executive Director Corporate Services

RESOLVED –

THAT the proposed voting policy on which Camden will vote its shares, be approved as set out in Appendix A of the report.

ACTION BY: Executive Director Corporate Services

9. PERFORMANCE REPORT

Consideration was given to the report of the Executive Director Corporate Services.

The Committee noted the performance of the Camden Pension Fund investment portfolio and the individual investment managers for the quarter ended 31st December 2019 (quarter 4 of 2019).

The Committee noted in particular that
- The Fund portfolio had a market value of £1.822bn at 31st December 2019 compared with £1.786bn at 30th September 2019.
- As at Q3 (2019-20), the Fund assets had outperformed long-term target set at the triennial valuation in 2016 by 23% (£341m).
- The Fund achieved 0.3% above target this quarter and was in line with very strong performance of global equities over the 2019 calendar year.

Committee Members noted Appendix A "Camden Client Ranking by Manager" which detailed Camden's exposure as clients to the overall fund or strategy managed by Investment Managers. Where Camden represented more than 5% of each fund and there was a material increase, due to client outflows, this would be reported to Committee on an exceptions basis.

The Committee also noted Appendix B, which presented a more comprehensive overview of the financial markets by the Independent Investment Advisor and reported the performance of the individual Investment Managers in more detail.

Karen Shackleton, Independent Investment Advisor highlighted the salient points as follows:

(a) **London CIV - Baillie Gifford** – This sub-fund delivered a return of +4.88% in Q4, outperforming Harris by +1.08%, and by +3.6% for the 12 months to Q4 2019. They outperformed the performance target by +2.79% for the quarter and by +2.34% for the 12 months (source LCIV). In terms of assets under management, the LCIV sub-fund stood at £2,782.4 million as at end December, an increase of £77.2 million since the previous quarter end. The market environment was favourable to Baillie Gifford in 2019. London Borough of Camden's investment represented 11.43% of the Fund.

(b) **Harris** – Harris' stock selection had a positive impact, contributing +2.27% to the return relative to the Index in Q4 2019, while sector selection was negative, contributing -0.16%. For the past twelve months Harris had continued to trail its performance target by -1.23%. As at quarter end, the fund had a 48.20% allocation to Europe, and a 38.90% allocation to the US, with the balance in Asia/emerging markets. The independent adviser would continue to hold quarterly calls with Harris until their longer term performance improved. Again, the market had been friendly to value managers.

(c) **Insight -** The fund performed positively in absolute terms (+4.13%), and in relative terms it outperformed three month LIBOR by 3.93% in Q4 2019 which led to it being above its target by 2.94%. They had performed better than CQS, as their inflation bets played out, so the Fund had not lost out by putting this divestment on hold.

(d) **Legal & General -** The observed tracking errors on the pooled index funds were within expected ranges during the quarter. As the tracking was still in line with expectations, there were no concerns.

(e) **CBRE** - As at quarter end the portfolio had 23 investments and leverage on the portfolio stood at 10.6% compared with 10.9% last quarter.

(f) **Partners -** The 2009 Fund had invested in a total of 61 investments, with 33 investments having now been realised. This Fund was fully invested, and Partners had called down 95.3% of committed capital. The manager had distributed 107.5% of the invested money since inception and was continuing to focus on exits and distributions as several investments in the portfolio moved into the realization phase of their lifespan. 15% of the investments were above expectations, 24% were meeting expectations, 53% were outperforming and 8% had issues.

The 2013 Fund had made 42 investments as at 31st December 2019, with 12 having been realised. The Fund was 84.2% invested and had distributed 62.6% (as a percentage of invested amount) since inception. 27% of the investments were above expectations, 49% were meeting expectations, 23% were outperforming, and 1% had some issues.

The Pension Fund had committed capital to Partners' Group's 2017 Fund. The Fund had drawn 45.0% of commitments as of quarter-end and had 36 investments.

(g) **Barings -** delivered a return of +1.5% performing better than both Standard Life GARS (+0.7%) and Ruffer (+1.0%). Negative company news impacted their holdings and on this point, Councillor Madlani wanted to know their exposure to aircraft leases.

(h) **Standard Life GARS -** had a positive quarter, and delivered a return of +0.65% in Q4 2019, however it underperformed the benchmark which returned +1.45%.

(i) **London CIV - Ruffer -** the Fund delivered a return of +1.0% in Q4 2019. This mandate had been invested since 21st March 2018, and the fund had returned 2.5% since inception. As at the end of Q4 2019 the fund had a beta of just 0.4, so if the equity market increased by 10%, the fund would be expected to rise by 4.0%. The LCIV sub-fund was valued at £868.3 m as at end of December and London Borough of Camden's investment was equivalent to 6.69% of the Fund. It was noted that they had around 75% exposure to Sterling.

(j) **Harbourvest –** Camden's pension fund had committed \$86.3 million to HarbourVest's Global Fund 2016. Around 63% had been drawn down as at 31st December 2019. A total of \$24.5m had been distributed back to investors (0.45x capital paid in).

(k) **London CIV – CQS** - The Fund committed capital to CQS, a multi-asset credit fund, in May 2019. In Q4 the fund returned +1.34% which was slightly above target return of LIBOR +4.5% per annum. The value of fund's investment in CQS stood at £49.8 million as of end December 2019, which represented 5.8% of the sub-fund. The London CIV had had CQS on a watch rating for several months. This was a result of concerns about performance, leverage and senior management changes. CQS had held ongoing dialogue with LCIV around these issues. The leverage concern had arisen as a result of poor communication and this has been rectified. The leverage in the portfolio was due to their currency hedging strategy and did not represent a risk. CQS' performance in 2019 was +6.37% (Camden did not invest until May 2019, however). As a result, over one year the manager has exceeded the performance target. Regarding the senior management issues, the concern had been around the new Chief Executive Office (CEO), Chief Financial officer (CFO), Chief Risk Officer (CRO), and Head of Legal Counsel. This team had now been in place for about a year and there had been no changes to the multi asset team, nor the investment process for the fund. Whilst this was reassuring, the CEO announced in February that he planned to step down from the role for personal reasons. He would continue as a strategic adviser to CQS and the CFO had been appointed as interim CEO. This was something to monitor closely over coming months.

(j) **London CIV** – Infrastructure Fund – Camden's Fund committed £106 million of capital to London CIV's infrastructure fund, in October 2019. The total commitments to the fund stand at £399 million which represent 26.6% of the Fund. Long-term, the fund would aim to achieve a net return of 8% to 10% p.a. over rolling four-years, and a cash yield of 4% to 6% p.a.

Committee Members were concerned that Partners were holding 10% of the Fund, but were not performing as well as expected. Karen Shackleton replied that Partners had set themselves an absolute target of 15%, which in her view was optimistic. Members were reminded that a meeting with the investment manager would be held in either July or October to which all Committee Members were invited to attend.

TO NOTE: All

Councillor Madlani also asked what the LCIV and JP Morgan were doing in relation the erasing of LIBOR in 2021. Officers agreed to get back to him on this issue.

ACTION BY: Executive Director Corporate Services

Kevin Corrigan, Interim CIO, London CIV, was in attendance at the meeting and reminded the Committee that in July 2019, the CIV had put CQS on a watch rating due to concerns about performance, leverage and senior management changes. Since then the CIV had held ongoing discussions with CQS around these issues. The CIV had recently removed CQS from the watch listing but would continue to monitor them as they were still concerned about the high turnover of managers. The CEO announced in February that he would be stepping down from the role for personal reasons, but would continue in an advisory role. The CFO had been appointed as interim CEO until a permanent appointment was made, although it was noted that there was no confirmed timeframe for this. This situation was of some concern as the CEO was an integral part of any investment manager. The CIV would continue to monitor this closely, but was of the view that investments with CQS could continue.

Karen Shackleton had provided some comments on the CQS and the CEO situation when commenting on the independent investment managers above. She had no concerns about leverage in the portfolio or CQS' performance. She added that the role of the CEO was very important as they were the driver of any company and it was important to continue to monitor this situation. However, the CEO had stepped down for personal reasons rather than business reasons, which was not such a concern. He had planned a number of changes for the company and the investments team had been quite positive about those changes. These included investment opportunities in China and technology which had been put on hold.

The Head of Treasury and Financial Services reminded the meeting that at its meeting on 27th February 2019, the Committee had agreed the transition of assets in four quarterly instalments from Insight to the CIV multi asset credit sub-fund run by CQS. Authority was delegated to the Executive Director Corporate Services with regard to the conclusion of this transfer, including legal due diligence and transition of funds. The transition would be monitored over the four quarters by the Pension Committee. The transfer was subsequently put on hold due to CQS being put on watch and to enable the CIV to continue to monitor and work with CQS. In the meantime, officers were asked to carry out a cost benefit analysis on whether or not the transition of funds from Insight to CQS should continue. Now CQS had been taken off the watch list, the Committee could decide whether or not it wished to continue with the transition of funds.

Given that the CIV had removed CQS from the watch list, the Chair proposed that the transition of funds from Insight to CQS should now restart, subject to further discussions between the Executive Director Corporate Services, the Chair, Karen Shackleton and ISIO and confirmation from those officers that the transition should proceed. As the next Committee meeting was not until July, authority would be delegated to the Executive Director Corporate Services with regard to the conclusion of this transfer. As previously agreed, the transition would be monitored over the remaining quarters by the Pension Committee.

RESOLVED –

(a) THAT the contents of the report be noted;

(b) THAT authority be delegated to the Executive Director Corporate Services with regard to the conclusion of this transfer and subject to further discussions between the Executive Director Corporate Services, the Chair, Karen Shackleton and ISIO and confirmation from those officers that the transition should proceed; and

(c) THAT, as previously agreed, the transition to be monitored over the remaining quarters by the Pension Committee.

ACTION BY: Executive Director Corporate Services

10. LONDON COLLECTIVE INVESTMENT VEHICLE PROGRESS REPORT

Consideration was given to a report of the Executive Director Corporate Services.

The Committee noted a quarterly update on developments at the London Collective Investment Vehicle (CIV) in creating sub-funds for the spectrum of asset classes, on-boarding of assets and development of the CIV's staff resource. Progress with the London CIV contributes to the Government's pooling agenda and drive to reduce costs in the Local Government Pension Scheme (LGPS).

The Committee noted the Fund Launch Plan, which was attached at Appendix B to the report. This was a Part II appendix, as it contained commercially sensitive and confidential information and was, therefore, not available to the public. Committee Members confirmed that they had read the appendix and would take it into account when making the decision.

As mentioned at item 4 "Announcements" above, Kevin Corrigan, the London CIV's Interim CIO, was in attendance at the meeting. It was noted that he had joined the CIV in November 2019 and was leading the Investment team. His work included focusing on delivering future fund launches and tackling some of the CIV's major challenges. Kevin Corrigan recognised that Committee Members had been concerned about the high turnover of staff at the CIV. He assured the Committee that although turnover had been high this had not adversely affected the key positions. The Committee noted that, despite there having been some difficulties in the appointment of a permanent CIO, a Head of Responsible Investment, and a Client Relations Director would be recruited in 2020. The total number of staff at the CIV had grown from 23 to 29 and was projected to increase to 39 over the Medium Term Financial Statement (MTFS) period.

The Committee also noted that the value of the CIV's assets directly invested stood at £8.6bn as at December 2019. The CIV also oversaw £11.4bn in passive assets.

In December 2019, the CIV Shareholder Committee discussed the importance of getting better clarity about pooling plans and product strategy in order to grow the assets under management (AUM), as the growth had been less than projected. This had prompted the CIV to increase fees by £20k per London Local Authority (LLA) from £90k to £110k. The CIV aimed to achieve a pooling level close to 70% by 31 March 2023. Although the CIV was on track to make a £525k adjusted loss this year and was unlikely to make a profit until 2024, their projected cash flow balances still seemed stable and large, which was reassuring, given the Camden Pension Fund has £150k of shares in the CIV.

The Chair of the London CIV reported at CIV’s General Meeting on 30th January, that a major focus was to work more effectively with client shareholders to ensure pooling continued and delivered the funds that the Fund wanted to invest in. As part of this they were working to make sure Environment Social and Governance (ESG) was integral to the London CIV, with climate change goals in particular in mind. It was noted that 23 of the 32 LLAs had now signed the Climate Emergency Declaration and the CIV’s vision statement now read: “to be the best in class asset pool delivering value for Londoners through long term sustainable investment strategies”.

On 5th February 2020, the CIV held an ESG workshop and presented two sub funds they were working on launching. The first was the Renewables fund which was 100% focussed on renewables, which expect net returns of 5-9%. The second was a new collaboration between the London CIV and the Local Pensions Partnership (LPP) pool. This was an impact fund aiming to invest in infrastructure in London. Its target would be CPI + 3%.

The Committee was reminded that the “ESG stocktake report”, commissioned by Dawn Turner was completed and had concluded positively on the CIV’s engagement on ESG matters. Although currently there were no resources dedicated to ESG, it was noted that appointments would be made to two ESG posts, to be funded from existing resources. Staff would be trained to ensure that they understand the issue regarding ESG. The report also made specific recommendations about stewardship, a common approach to carbon foot printing, reporting and voting. Even though engagement was preferred to divestment, exclusion versions of CIV equity products could still be an option in the future.

Kevin Corrigan said that he was aware that some LLAs wanted to exclude the production and extraction of fossil fuels from investments, and further work would be undertaken in respect of this. He also acknowledged that the CIV had to be more transparent and the website and client portal required improvement in order to make access easier.

On the topic of voting, there was mention of going beyond LAPPF recommendations, using a proxy voting agency. The current situation was that whilst CIV managers voted in most instances in line with the LAPFF's voting alerts, very exceptionally fund managers were able to request a deviation from this (on a 'comply or explain' basis).

In response to a question regarding how prepared the CIV was with regard to the issues concerning the Coronavirus, Kevin Corrigan confirmed that the CIV did have a business continuity plan and was in the process of purchasing more laptops to enable staff to work from home if need be.

RESOLVED –

THAT the contents of the report be noted and any comments on progress be fed back to the Chair and officers.

TO NOTE: All
Executive Director Corporate Services

11. FUNDING STRATEGY STATEMENT

Consideration was given to a report of the Executive Director Corporate Services.

The report set out revisions to the Funding Strategy Statement (FSS) which established how scheme employers in the Pension Fund were treated. It set out how employer liabilities were measured, the pace at which these liabilities were funded and how employers or pools within the Fund pay for their liabilities.

The Committee noted that the FSS was set out in Appendix A to the report and had been reviewed by the Fund's Actuary, Hymans Robertson.

Barry Dodds of Hymans Robertson was in attendance at the meeting and informed the Committee that the only major changes were revisions for the McCloud judgement. This was an age discrimination court case that stemmed from when the government reformed public sector pensions in 2015, but offered "transitional protection" to some members of the judges' and firefighters' schemes. In December 2018, the Court of Appeal ruled that this amounted to unlawful discrimination and in June 2019 the Supreme Court refused the government permission to appeal. As a result, the LGPS benefit structure was currently under review, which might mean the benefit structure needed to change, and revisions to update for trapped surpluses. These occurred where employers had paid contributions over the life of their contract that were more than required to fund liabilities at cessation i.e. a surplus of contributions. Previously any credit amounts could not be paid back to employers. The Government had now introduced new regulations allowing Funds to pay back surplus money. The Fund would revisit contribution rates when the McCloud solution to the judgement was known. The Committee's attention was drawn to the table on page 159, which showed that due to the McCloud judgement, the likelihood of achieving targets had increased to 80%.

It was also noted that the FSS had now taken into account the effect of possible asset underperformance as a result of climate change (page 179).

The Committee noted that the draft FSS was circulated to employers in the Fund for consultation on 4 February, but no comments had been received.

RESOLVED –

THAT the revised Funding Strategy Statement be agreed, as set out in Appendix A.

ACTION BY: Executive Director Corporate Services

12. EMPLOYER REGISTER

Consideration was given to a report of the Executive Director Corporate Services.

The report updated the employer register for all the admitted bodies in the Pension Fund and provided relevant data for the Committee to review in light of the funding positions and scheme status.

The Committee noted the latest available financial statement data and membership numbers, including triggers for each set of the traffic lights which were contained in the Appendix to the report. This was a Part II appendix, as it contained commercially sensitive and confidential information and was, therefore, not available to the public. Committee Members confirmed that they had read the appendix and would take it into account when making the decision.

The Committee was informed that the Improvement and Development Agency (IDeA), the second largest employer in the Fund after the Council, was an agency set up to support Councils and was treated as a Community Admission Body within the Fund. The IDeA had liabilities of £184m and assets of £158m as at March 2019 and was, therefore, 86% funded as at the last valuation. The IDeA was part of two funds: Merseyside and Camden and had been in provisional discussions with the Fund over the years about a possible substitution of Funds. The IDeA Company Board had recently approved the process to move forward on the transfer of the administration of the IDeA LGPS from Camden to Merseyside, with a target date of 1 April 2020. All parties including, both Camden's and Merseyside's Actuaries, both Funds and the IDeA were working together to make this process work.

The Committee noted that the transfer required that all active, deferred and pensioner members, which totalled 913, would be transferred to the new fund and a bulk payment of around £158m would be made from Camden to Merseyside. The process could take at least 6 months. The IDeA would need to consult their staff and the Secretary of State would need to consult affected bodies. The IDeA would be required to commit to fund all costs arising from this substitution, which would include legal, actuarial, investment consultancy and other costs, including any transition costs associated with selling any of the assets to liquidate cash to pay over to Merseyside. The timing of this did, however, fit in well with the Investment Strategy Review that Camden's Fund investment consultant was conducting and they had been asked to consider this transfer as part of their work.

The Committee was, therefore, being requested to delegate authority to the Executive Director Corporate Services, in consultation with the Chair of Pension Committee, to make a decision on the final terms of the substitution.

Committee Members asked officers to track the payment of costs to ensure that the Fund was paid on time and when payments were due.

ACTION BY: Executive Director Corporate Services

RESOLVED –

(i) THAT the contents of this report be noted; and

(ii) THAT the Executive Director Corporate Services be given delegated authority, in consultation with the Chair of Pension Committee, to agree the final terms of the substitution of funds for the Improvement and Development Agency.

ACTION BY: Executive Director Corporate Services

13. PREPAYMENT OF SECONDARY CONTRIBUTIONS

Consideration was given to a report of the Executive Director Corporate Services.

The Committee noted that this report followed on from a report it considered in November 2018. It set out phase two of a proposal from the Council, as the major employer in the Fund, to prepay its secondary contributions early for 2020-2023.

The Committee was reminded that the Council had already prepaid the 2019/20 secondary contributions early on 1st April 2019 (the last year of the current triennial valuation). It paid £18.58m versus the Actuary's assessed figure of £18.93m (assumed to be paid at the mid-point of the year). The Fund agreed to the first year and then asked to reconsider this policy for the next three years and this report was updating Committee on this proposal. The Council was now asking to make a further prepayment on 1st April 2020 for the three financial years 2020/21, 2021/22, and 2022/23 which formed the period of the next triennial valuation cycle. It was noted that many other Councils had also taken this approach.

In exchange for the Council paying its secondary contributions early it was proposed that the Fund would discount the cash amount by the asset outperformance assumption (4.5%) the Actuary had set in the latest 2019 triennial valuation for asset growth of the Fund. This prepayment would effectively be put to use early in the asset strategy and so, as long as there was growth in the Fund's assets, would accrue growth in-line with the Fund's investment strategy earlier.

The Funding Strategy Statement, which governed how employers make contributions to the Fund, allowed for the Council to make additional payments over and above those certified by the Actuary. The Fund could, therefore, accept a one off payment early on 1st April 2020 of £57.323m rather than payments of £19.675m, £20.421m and £21.166m in the next three years from 2020/21to 2022/23 (which total £61.262m). This would amount to a saving of £3.939m for the Council.

The Committee noted that the Actuary had provided an assessment of the benefits of prepayment and some of the risks, as set out in Appendix A.

It was noted that if the Pension Committee agreed this proposal, then the approach would have to be cleared with the Fund's Auditors, Mazars. If the Auditor agreed the approach then the Committee would need to agree how to deploy the assets it receives early for 2020/21-2022/23.

RESOLVED –

THAT the Council can prepay its secondary contributions on 1st April 2020, amounting to £57.323m, as set out in the report.

ACTION BY: Executive Director Corporate Services

14. FUND MATURITY

Consideration was given to a report of the Executive Director Corporate Services.

The Committee noted the results of an exercise to estimate the Fund's maturity (the balance between benefits paid and contributions received) and that when payments exceed receipts the Fund was considered to be mature.

The Committee was reminded that it had previously received reports from the Actuary which modelled assumed cash flows based on data held from triennial valuations. The last report was submitted to Committee in November 2016 following the last triennial valuation.

Barry Dodds from Hymans Robertson, the Actuary, was in attendance at the meeting and summarised the findings in his 2019 report, as attached at Appendix A, and as follows:

- The Fund was not yet cash flow negative (or mature) and would remain broadly cash flow neutral until 2028. This was good news as the Fund did not have to redeem investments to fund benefit expenditure. After 2034 the results showed that the deficit contributions would cease and so the cash flow gap would increase and was significant thereafter between contributions received and benefits paid.

- Since the last exercise in 2016, there was an improved cash flow position up until 2034.
- Even after 2034 when deficit repayment contributions were expected to cease, the latest cash flow analysis showed net cash flow outgoings at lower levels in 2019 compared to 2016. This was attributed to higher payroll figures than assumed in 2016 resulting in higher contributions (both employers and employees).
- The Fund had moved from being significantly cash flow positive to a cash flow neutral position, but this would move to small cash out flows in the near future.

RESOLVED –

THAT the contents of this report be noted.

At this point in the proceedings the Committee noted that the meeting had lasted for nearly the maximum time of 3 hours and it, therefore, agreed to move standing orders to extend the meeting for a further 15 minutes in order to finish the business on the agenda.

15. LONGEVITY

Consideration was given to a report of the Executive Director Corporate Services.

The Committee noted the findings from Club Vita on the Fund's longevity experience. It also noted that longevity (how long pensioners live and future expectations) was a key determinant of pension fund liabilities. The higher pensioner life expectancy was, the greater a Fund's liabilities were (pensions paid over a longer timeframe from retirement).

Barry Dodds from Hymans Robertson, the Actuary, was in attendance at the meeting and presented the findings of the Club Vita report. It was noted that based on the results of Club Vita's most recent work the Fund's liabilities were assessed to increase by 0.4%, which equated to £6.4m. As well as re-visiting the valuation assumptions, the analysis also measured the impact of recent experience. Over the last three years the Fund's experience was that pensioners in the Fund were living longer than expectations in all age groups. This had increased liabilities by 0.2% and taken in total, Hymans Robertson estimated local assumptions would increase liabilities by 0.6%. The Fund had a concentration risk that 50% of the liabilities stem from 12% of the membership. The lowest paid 50% of members accounted for just 7.5% of liabilities.

The report also showed that recent improvements in life expectancy had slowed since 2012, although they were still increasing.

In response to a question, Barry Dodds said that although many people might die, the effect of a pandemic on the assets would usually be worse and would, therefore, have a detrimental effect on the Fund.

Barry Dodds added that Hymans had produced a paper on life expectancy, which included investment issues. He agreed to circulate a copy to Committee Members.

ACTION BY: Executive Director Corporate Services

The Committee noted that the Head of Treasury and Financial Services would circulate possible dates for a training session on this issue which would be held before the next meeting.

ACTION BY: Executive Director Corporate Services

RESOLVED –

THAT the contents of the report be noted.

16. ENGAGEMENT REPORT

Consideration was given to a report of the Executive Director Corporate Services.

The Committee noted an update of engagement activity undertaken by the Fund and on its behalf by LAPFF (the Local Authority Pension Fund Forum) since the last Committee meeting. This work was important to the Fund's ambition to be a fully engaged investor and demonstrates its commitment to Responsible Investment and engagement as a way to achieve its objectives.

It was noted that Councillor Heather Johnson and the Head of Treasury and Financial Services had attended the LAPFF Forum business meeting on 29th January 2020. The report summarised the business undertaken at that meeting which included infrastructure investments, stock lending, reliable accounts and capital markets, audit, reporting and governance authority (ARGA), modern slavery and climate change survey.

With regard to climate change, it was noted that LAPFF would develop an approach to working with policymakers and update their climate change policy framework. LAPFF continued to make the case for engagement and its impact and would consider how best to engage with asset managers. Climate change was now a regular item in respect of engagement.

It was agreed that the stakeholders report would be circulated to Committee Members.

ACTION BY: Executive Director Corporate Services

It was noted that a new list of the Carbon Underground Top 200 companies had been produced and it appeared that the Fund's exposure to fossil fuel companies appeared to be very small. A report would be submitted to the July meeting as part of the Investment Strategy Review.

ACTION BY: Executive Director Corporate Services

Councillor Madlani asked about the ethnicity of engagement. He was also confused by the statistics showing fractions of engagement and felt that the term "substantial improvement" was not clear. He felt that it made it difficult to judge whether actions had been effective and whether or not progress was being made. Alan McDougall (PIRC) and Janice Hayward (PIRC) said that they would look at it again and make it make it clearer.

TO NOTE: Executive Director Corporate Services

RESOLVED –

THAT the contents of this report be noted.

17. BUSINESS PLAN

Consideration was given to a report of the Executive Director Corporate Services.

The Committee noted the items scheduled for future agendas of this Committee together with a record of training/meetings attended and a list of future training opportunities.

Committee Members were asked to inform the Head of Treasury and Financial Services if they wished to attend the meetings with Investment Managers or any training sessions.

TO NOTE: ALL

RESOLVED –

THAT the contents of the report be noted.

18. DATES OF FUTURE MEETINGS

The provisional dates for meetings of the Pension Committee being to be held during the 2020-21 Municipal Year were noted as set out below:

Monday, 20th July 2020
Wednesday, 9th September 2020
Tuesday, 24th November 2020
Tuesday, 2nd March 2021

It was also noted that the Council would be asked to formally agree the Calendar of meetings for the 2020-2021 Municipal Year at its meeting on 15th May 2020. All meeting dates avoided major religious holidays and party conferences.

Karen Shackleton, Independent Investment Advisor, gave apologies for the July meeting as she would be on holiday and unable to attend. It was noted that she would arrange for a colleague to attend in her place.

TO NOTE: Executive Director Corporate Services

19. ANY OTHER BUSINESS THAT THE CHAIR CONSIDERS URGENT

There was no urgent business.

The meeting ended at 9.42 pm.

CHAIR

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MINUTES END