

Pension Committee**18 March 2019****PENSION COMMITTEE
18 March 2019 at 7.00 pm**

MEMBERS: Councillor Jill Whitehead (Chair), Councillor Ben Andrew (Vice-Chair) and Councillors Edward Joyce, Nali Patel, Eric Allen and Param Nandha

ABSENT Councillor(s)

40. WELCOME AND INTRODUCTIONS

The Chair, Councillor Jill Whitehead, welcomed those present, and in particular extended a welcome to Richard Simpson the new Interim Strategic Director.

41. APOLOGIES FOR ABSENCE

There were no apologies for absence.

42. DECLARATIONS OF INTEREST

There were no declarations of interest.

43. MINUTES OF THE PREVIOUS MEETING

RESOLVED: that the minutes of the meeting held on 19 November 2019 be agreed as an accurate record.

44. PENSION ADMINISTRATION UPDATE

David Kellond, Pensions Administration Manager, presented the report and provided an update on the main work streams impacting pension administration for the period to January 2019.

7.02 Councillor Ben Andrew joined the meeting

The Pensions Administration Manager confirmed that adverts for the vacant roles within the team had not been fruitful, and that he would speak with colleagues in HR to look at other areas where these vacancies can be advertised via more bespoke publications/ websites.

In respect of the update on clearing the backlog of work, the committee were advised that the volume of outstanding processes had increased and this was linked to the need for more resources, and also the change in the SCAPE rate, leading to a number of new factors being issued.

The Pension Administration Manager clarified that regarding GMP reconciliation for pensioners this can mean that their pension can be over or underpaid and these cases will need to be addressed accordingly. Members sought information on the likely number of people this would impact and also the scale of the impact. The Pensions Administration Manager advised that he will bring a report to this committee with more details of the volume and values of the impact of this. Members were advised that this reconciliation is going on across the country and is not just impacting the Sutton pension fund.

RESOLVED: that the report was considered and noted.

7.15 Councillor Eric Allen left the meeting.

45. MEMBER TRAINING

The session was presented by David Walker from Hymans Robertson LLP on the property asset class. The presentation was shared with Members for reference. Key areas covered were:

- Characteristics of property assets.
- The key risks of property as an asset class.
- Currently the focus of the fund is on UK commercial property but also have exposure to residential property.
- Housing within the property sector, such as student accommodation, private residential housing and other areas such as social housing, or affordable housing.
- Government Guidance on pooling was shared.

Members asked why Sutton Pension fund is only investing in the UK property and David Walker responded accordingly.

Members queried the likely income levels of commercial versus residential property. Members were advised that income from commercial property is circa 5% per annum and residential is lower at 4% per annum, it was also highlighted that for Commercial property a large unit would typically only have one or two tenants but in respect of a residential block of flats it could have 200 different units/ tenants which would be more difficult to manage.

The Committee were advised that Sutton Pension fund is currently below the target allocation to property as an asset class.

The presentation touched on types of funds currently available via the London CIV.

46. QUARTERLY INVESTMENT PERFORMANCE REPORT

Richard Simpson, Interim Strategic Director Resources, presented the report and updated the committee on the performance of the total fund and individual fund managers for the quarter ending 31 December 2018.

Members were advised that the fund remains overweight in equities and the discussion covered the performance of the market overall and individual fund managers (in particular, Harding Loevner). Members were advised that Q4 was a disappointing period for equity markets and this was partly due to US interest rate rises that resulted in a sell-off in equities and saw government bond yields pushed down over that period. It was noted that since then, there had been an improvement in UK and global equities.

RESOLVED: that the performance of the total fund, contribution at the fund manager level and detailed attribution of the results was noted.

47. PRESENTATION BY HARDING LOEVNER (GLOBAL EQUITIES) FOR INVESTMENT PERFORMANCE RESULTS TO DECEMBER 2018

The item was presented by Simon Hallett and Hannah Chase from Harding Loevner. The presentation was shared with Members for information. Key areas highlighted were:

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- The performance summary, and reasons for under-performance particularly in Q4 2018.
- Insight and action taken as a result of performance.
- Harding Loevner will be consistent in their style and investment philosophy.
- In Q4 the best performing sectors were utilities and real estate, Members were advised that Harding Loevner do not invest in real estate and utilities and the reasons for this decision.
- By region, the US was the best performing market in the world and the portfolio has gradually been reducing holdings in US stock by stock over last 3 -4 years.

David Walker asked how Harding Loevner approached the issue of being a Responsible Investor, the Committee were advised that investment decisions are based on risk and return and are not solely driven by ethical reasons. They do not impose ethical views on the portfolio. For example, it was confirmed that they have never had exposure to tobacco companies as they do not take the view that they are a company that will deliver the returns but don't have a blanket ban on tobacco stocks.

48. INVESTMENT STRATEGY REVIEW

Richard Simpson, Interim Strategic Director Resources, presented the report. He provided an update on the Investment Strategy Review prepared by Hymans Robertson and presented to the committee on 18 December 2017.

The current target and revised target allocations were highlighted to Members.

Members raised queries regarding the timing for moving investments into the London CIV and the perceived issues with moving. David Walker responded that the Committee needs to consider if the CIV offering will achieve the strategy of the pension fund and meet its requirements, and to take into consideration the cost of moving investments to the CIV.

RESOLVED: that the progress on the Investment Strategy Review was noted.

49. ESG POLICY REVIEW

David Walker, Hymans Robertson LLP, presented the report and provided an update on the workshop that took place on 26 February 2019. He highlighted the workshop presentation and drew members' attention to the key points.

The debate highlighted the proposed next steps for example looking at current investment beliefs and proposed revisiting and refreshing these. Suggestion was made to review the current fund managers to check the reporting available from them; and to understand the managers comments on their Responsible Investment strategies. Actions should be completed before thinking about divestment or tilting analysis.

Members commented that they agreed with the proposed next steps and that they would also welcome more information on what other Councils in London are doing, and in particular would welcome an update on what the Royal Borough of Kingston is proposing.

RESOLVED: that the suggested next steps, related to Environmental, Social and Governance issues, as set out in paragraphs 4.4 and 4.5 of the report be Agreed

50. PENSION FUND BUSINESS PLAN 2019/20

Antony Huggett, Investment, Insurance and Commercial Manager, presented the report on the Pension Fund Medium Term Business Plan

He highlighted section 7 and 8 of the plan, and in particular, discussed the cash flow implications accordingly. The committee were advised that the management costs are expected to reduce but that cost of triennial valuation will need to be covered in the short term.

RESOLVED: that the Pension Fund Medium Term Business Plan as set out in Appendix A be agreed.

51. REVIEW OF RISK REGISTER

Antony Huggett, Investment, Insurance and Commercial Manager, presented the report on the Sutton Pension Fund Risk Register.

Members' attention was drawn to the scoring key, and how risks are identified and given a score. It was confirmed that the score is based on the likelihood of the risk happening and the impact of it happening.

It was confirmed that the second score given was based on having taken into account actions in place to mitigate the risk. This gave the residual risk after the mitigating action.

It was confirmed that Investment risk is the most significant risk that is being managed.

The Chair requested that updates to the Risk Register be reported to the Pension Committee as and when changes to risks occur, in the same way as they are presented to the Pension Board.

RESOLVED: that Sutton Pension Fund Risk Register was commented upon and noted.

52. REVIEW OF WORK PROGRAMME

Antony Huggett, Investment, Insurance and Commercial Manager, presented the report to propose agenda items to be presented and discussed at future meetings.

Members commented that the programme looks correct.

RESOLVED: that the proposed Work Programme set out in the report was noted

53. ANY URGENT BUSINESS

No urgent business was raised.

The meeting ended at 9.15 pm

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Chair:

Date:

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