

Minutes



To: All Members of the Pensions Committee

From: Legal, Democratic & Statutory Services
Ask for: Stephanie Tarrant
Ext: 25481

PENSIONS COMMITTEE 31 MARCH 2017

ATTENDANCE

MEMBERS OF THE PENSIONS COMMITTEE

R J Henry, D E Lloyd, R G Parker, P A Ruffles (substitution for C M Hayward), A M R Searing, R Sangster, A Stevenson, J D Williams (Vice-Chairman)

MEMBERS OF HERTFORDSHIRE DISTRICT/BOROUGH COUNCILS (NON-VOTING)

K Ayling, M Freeman

OTHER MEMBERS IN ATTENDANCE

D Devereux (Local Government Pension Scheme (LGPS) Pension Board and Unison Member)

Upon consideration of the agenda for the Pensions Committee meeting on 31 March 2017 as circulated, copy annexed, conclusions were reached and are recorded below:

Note: No conflicts of interest were declared by any member of the Committee in relation to the matters on which conclusions were reached at this meeting.

PART I ('OPEN') BUSINESS

1. MINUTES

- 1.1 Minutes (Part I and II) of the meeting of the Pensions Committee held on 7 March 2017 were confirmed as a correct record and signed by the Chairman.

2. INVESTMENT STRATEGY

[Officer Contact: Patrick Towey, Head of Specialist Accounting, Tel: 01992 555148]

- 2.1 Members reviewed a report which shared the proposed Investment Strategy Statement for approval.

ACTION

- 2.2 Members heard that a cross party Member working group had been formed to review and revise the current Investment Strategy, following new regulations set in November 2016. The Member working group had been supported by the Fund's investment consultant, Nick Sykes from Mercer and officers that specialised in Environmental, Social and Governance (ESG).
- 2.3 Members considered and commented on the five areas of the Investment Strategy Statement as set out at Appendix A.

Introduction

- 2.4 Members heard that the introduction set out in writing the investment beliefs of the Committee, however, it was noted that these beliefs had been implied by the work of the Committee for a number of years.
- 2.5 Members queried if the meaning of diversification had been articulated more specifically in terms of asset classes and suggested that it was one way of mitigating risk. Members were informed that the Investment Strategy was a framework that set out the overall asset allocations and that policies would be developed and revised to support and implement the new Investment Strategy.
- 2.6 Members commented on whether risk and return should still be considered related and it was noted that as a general principle it was still valid.
- 2.7 It was noted that diversification could reduce volatility if all assets were held in cash. Officers explained that the investment strategy reflected the need to meet immediate liabilities such as pensions in payment and that cash was held to meet these payments. The strategy also addressed the longer term nature of the liabilities which required assets that would grow, provide income and inflationary protection and were diversified to mitigate risk.
- 2.8 'Net of fees' was discussed and it was acknowledged that the strategy should not imply fees were unimportant and it was recognised that some fund managers were now reducing fees in recognition of the competition.
- 2.9 Members acknowledged that whilst investments were to be made via the ACCESS pool the Investment Strategy (IS) remained the responsibility of the Committee. It was agreed that a statement would be added to the introduction about the ACCESS pool, given that it was one of the biggest changes going forward for the Fund.

Head of Specialist Accounting

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Investment strategy and the process for ensuring suitability of investments

- 2.10 Members heard that the Fund's funding level was ahead of where it

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was expected to be due to a number of factors including reduction in inflation, liability discount rate change and strong investment returns.

- 2.11 Members acknowledged the new proposed asset allocation and the new asset class of real assets which were to act as a defensive asset. It was advised that 'real' assets were not necessarily tangible assets and were assets with inflationary characteristics similar to the Fund's liabilities.
- 2.12 Members commented that it was a sensible strategy which no longer assumed that bonds were low risk and that it had been adjusted to recognise that the timing of bond investments was important as well as having real assets with long-term growth.
- 2.13 Members commented that whilst the strategy had now moved forward, it was important for it to continue to meet future requirements. It was advised that part of the review highlighted the importance of keeping the strategy as a living document. The aim was to review the document yearly with reviews considered by the Committee.

Risk measurement and management

- 2.14 Members were given an overview of the risks that the Fund was exposed to and the requirement in the Investment Strategy was that the Fund explains how they were to be managed and mitigated against. It was noted that the Investment Strategy emphasised the investment risks but that there were other risks to be aware of that were referred to in other statements i.e. the Funding Strategy.
- 2.15 Members queried why there would be a demographic risk and it was advised that if the Fund reached a point in the future where there were more pensions to be paid out than contributions being received, there would need to be assets available that generated income which would enable those payments to be made.
- 2.16 A Member queried if a brief explanation could be provided on each asset risk and the return period and it was noted this information was covered in the risk register. Further detail from the risk register was to be provided at a future Committee meeting.

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Approach to asset pooling

- 2.17 Members heard that Hertfordshire was now one of the fund members of the ACCESS pool along with 10 other pensions funds (Essex awaiting agreement at their next meeting). The hyperlink to the ACCESS website in the report provided details and the transition and timescales.
- 2.18 Members discussed the liquid assets that were to be initially included

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in the ACCESS pool and noted those that were to remain outside. It was noted that all assets would be pooled in the future and it was agreed that the strategy would recognise this. Fund of Fund fee structures would also need to be taken into in consideration to save paying triple fees.

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Environmental, Social and Corporate Governance and the exercise of rights (including voting rights) policies

- 2.19 Members noted that a presentation had been given to the Member working group from Environmental, Social and Governance (ESG) specialists at Mercer and that they had considered how as a long-term investor the Fund could influence decisions in large companies and how the Fund engaged with investment managers.
- 2.20 Members were advised that there would be future consideration into how fund managers voted and whether fund managers were to be given full discretion or a proxy via a third party.
- 2.21 The Committee noted that fund managers had a fiduciary role to invest money where they could gain the best returns for the fund; however, it was noted that the ESG rating of each investment manager should be reviewed regularly and the investment managers held accountable.
- 2.22 Members commented that modern slavery should be mentioned within the ESG section of the strategy, with large organisations having to prove that they do not have any within their supply chain.
- 2.23 Members queried if there were consistent ESG views across the ACCESS pool and heard that ACCESS officers had met to discuss ESG and it was noted that as responsible investors there may be a common policy made in the future.
- 2.24 The Committee Members alongside the Unison Member welcomed the ESG section of the report.
- 2.25 Members noted that as part of the process, the draft strategy had been shared with Members of the Pensions Board for comments. Members heard that most of the comments were around the presentation of the report and whether a percentage should be stated in terms of passive allocation. Members noted that the strategy was a living document and would be updated to meet future changes and requirements.
- 2.26 Members of the cross party working group and Mercer were thanked for their contribution to the revised Investment Strategy.

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Decision

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2.27 The Pensions Committee approved the Fund's Investment Strategy, subject to the changes as detailed above.

**KATHRYN PETTITT
CHIEF LEGAL OFFICER**

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