

## **Pensions Advisory Panel**

MINUTES of the OPEN section of the Pensions Advisory Panel held on Wednesday 11 November 2020 at 2.00 pm at Online/Virtual

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**PRESENT:** Councillor Rebecca Lury (Chair)  
Councillor Eliza Mann  
Duncan Whitfield  
Caroline Watson  
Chris Cooper  
Julie Timbrell  
Barry Berkengoff  
Susan Greenwood  
Tom Bacon  
David Cullinan  
Mike Ellsmore  
James Gilliland  
Andrew Weir

### **1. APOLOGIES**

Apologies were received from Councillor Jon Hartley and apologies for lateness were received from Councillor Eliza Mann. Apologies were also received from Derrick Bennett.

### **2. CONFIRMATION OF VOTING MEMBERS**

Councillor Rebecca Lury, Caroline Watson and Barry Berkengoff were confirmed as voting members at the beginning of the meeting. Councillor Eliza Mann was a voting member from item 11 onwards.

Everyone introduced themselves.

**3. NOTIFICATION OF ANY ITEMS OF BUSINESS WHICH THE CHAIR DEEMS URGENT**

There were none.

**4. DISCLOSURE OF INTERESTS AND DISPENSATIONS**

There were none.

**5. MINUTES**

**RESOLVED:**

That the minutes of the meeting held on 8 September 2020 be agreed as a correct record.

**6. INTRODUCTION TO NEW PENSIONS ADVISORY PANEL MEMBERS**

Caroline Watson informed members that any necessary training would be provided and asked members to advise if they had any training requirements.

**7. ASSET ALLOCATION**

Caroline Watson briefly introduced the report. She advised that the fund had increased by £40 million in the third quarter (ending 30 September).

It was noted that property was currently underweight and equities overweight to their strategic allocation. It was further advised that property should be considered long term in terms of the fund's strategic position.

**RESOLVED:**

That the fund's asset allocation at 30 September 2020 be noted.

**8. CARBON FOOTPRINT UPDATE**

Caroline Watson introduced the report. She advised that Since December 2018 the Fund has engaged Sustainalytics to assist with assessments of the CO2 equivalent exposure of its equity holdings.

She reported that the results for June 2020 show that the fund has reduced its carbon exposure by 36.7% since September 2017. This is mostly a consequence of the transition of 50% of the Fund's developed market equities from conventional passive to specific low carbon passive.

Julie Timbrell raised the issue of having a target for the next 12 to 18 months.

Duncan Whitfield advised that the panel should be wary of target setting and that it is better to track the fund's progress. He also reminded the panel that their responsibility was to maximise the value of the fund for its members.

**RESOLVED:**

That the fund's updated carbon footprint as at 30 June 2020 be noted.

**9. QUARTERLY INVESTMENT UPDATE**

Susan Greenwood and Tom Bacon from Mercer updated the panel on the position of the pension fund and the performance of the various asset classes in which the fund had investments. They advised that the fund had continued to perform well in the third quarter, although performance was more muted compared to quarter 2, due to slowing growth of equity markets.

Duncan Whitfield thanked Susan and Tom and noted that there was nothing of concern at this time.

David Cullinan also updated the pensions advisory panel. He informed the panel that he also felt that the fund had continued to perform well. He reminded the panel that they needed to remain focussed on the main strategy of the fund and that they had a duty to deliver pensions over the long term for the fund's members.

Julie Timbrell advised that she supported a balanced agenda and that she hoped that the fund would continue its journey towards carbon neutrality.

Caroline Watson advised that it was not possible to put a date on carbon neutrality and that the fund would have to look at different products and how they were performing in the short, medium and long term.

Duncan Whitfield added that the fund had a current strategy but this would be updated in years to come.

The panel noted that invitations for tenders for the investment consulting contract would be sent out soon and that a shortlist would be taken to the panel in January or February 2021.

**RESOLVED:**

That the quarterly investment updates be noted.

## 10. INVESTMENT STRATEGY REVIEW UPDATE

Caroline Watson addressed the panel on the investment strategy review update. She advised that the 2019 actuarial valuation determined the Southwark fund was 103% funded. This compared to 88% funded at the previous valuation in 2016. Caroline reminded the pensions advisory panel of the investment strategy proposals that had been agreed by the panel to date. Caroline then ran through the implementation and next steps.

The Fund currently has a strategic allocation of 5% to passive emerging market equities (c. £100m) which are managed by BlackRock.

At the February 2020 PAP meeting it was agreed that appropriate alternatives to the passive emerging markets allocation would be identified to better meet the Fund's commitment to divest from fossil fuels. This allocation is one of two remaining equity investments not allocated to low carbon products.

The switch to an active approach would increase the portfolio's overall return expectations due to the potential for manager outperformance.

It was noted that the fund, with advice from its investment advisers Mercer, identified a long list of investment funds that met minimum criteria for consideration. This list had been reviewed and it is recommended that Cartica, Comgest and Investec are invited to present to PAP at a formal interview session in February. Following these interviews, a proposal will be brought back to the pensions advisory panel for agreement.

There was a discussion regarding the London Collective Investment Vehicle (CIV). Duncan Whitfield advised that the Southwark fund was ahead of the CIV in terms of low carbon investments. Susan Greenwood added that the CIV's emerging markets fund doesn't currently fit the Southwark fund's criteria.

Julie Timbrell queried the length of time that it took for drawdowns in relation to property and sustainable infrastructure to be made. Duncan Whitfield clarified that it can take months or sometimes longer, depending on the available products and opportunities.

### **RESOLVED:**

1. That the progress to date regarding the investment strategy review be noted.
2. That the previously agreed approach to the implementation of the investment strategy review be noted.
3. That the shortlist of emerging market equity managers identified by officers in

conjunction with Mercer be noted.

4. That it be recommended that the fund invite the following emerging market equity managers to a formal interview session on 3 February 2021 with a view to committing 5% of the fund to one of the shortlisted managers:
  - Cartica
  - Comgest
  - Investec.
5. That the update on property and sustainable infrastructure drawdowns be noted.

#### **11. PENSION FUND STATEMENT OF ACCOUNTS & AUDIT REPORT 2019-20**

Caroline Watson introduced the report. She confirmed that an unmodified audit opinion has been received.

Duncan Whitfield thanked Caroline for her hard work.

##### **RESOLVED:**

1. That the 2019-20 pension fund statement of accounts included as appendix 1 of the report be noted.
2. That the audit findings report included as appendix 2 of the report be noted.

#### **12. PENSIONS REGULATOR CODE OF PRACTICE 14 ACTION PLAN**

Caroline Watson introduced the report. It was noted that the Public Services Pensions Act 2013 introduced the framework for the governance and administration of public service pension schemes and provides an extended regulatory oversight by the regulator.

The regulator is required to issue codes of practice covering specific matters. COP14 is particularly directed at scheme managers and the members of pension boards.

The local pension board commissioned Barnett Waddingham to conduct an independent review of the council's compliance with COP14.

Councillor Lury asked if there were any concerns regarding the action plan and if the plan was deliverable. Mike Ellsmore advised that he felt that the action plan

was good.

Julie Timbrell raised the issue of publishing the pensions advisory panel papers online. Duncan Whitfield said that he would support the papers being published going forward.

**RESOLVED:**

1. That it be noted that an independent review of compliance with the Pensions Regulator's Code of Practice 14 (COP14) has been conducted.
2. That the improvement plan included in the report at appendix 1 be noted.
3. That the Barnett Waddingham report included in the report at appendix 2 be noted.

**13. PENSIONS SERVICES UPDATE**

Barry Berkengoff presented the report and updated the panel on the performance of the Pension Services team and on a number of the team's initiatives.

He advised that currently one or two members of the team were going into Tooley Street each week to deal with incoming post, printing and scanning. But given the current situation around COVID-19, a hybrid 'Office Post' solution would shortly be in place to deal with incoming post, scanning and remote printing.

Following a six month review, a decision had now been made to bring Contact Centre enquiry work under Pension Services control in early 2021. A dedicated First Contact Resource team will manage all incoming enquiries from fund members, employers, and stakeholders (such as HR) from multiple inbound contact channels.

Barry also updated the Panel on the progress regarding IT. The Civica UPM project is now well underway with payroll services expected to go live around May 2021. SAP (Council Payroll) is the primary source of data being used to create 'skeleton records' for pensioner records on UPM (until all Altair pensions admin system data is migrated later in 2021). SAP test data is with Civica for mapping to the new UPM database.

Barry also provided brief updates around recruitment, recent communications concerning Annual and Lifetime Allowance, training and development and complaint handling.

Julie Timbrell raised the issue of the £95,000 cap on public sector exit payments.

Barry advised that whilst this had pension fund strain cost implications, the exit cap was something that HR would have to progress as it was an employer matter.

Duncan Whitfield advised that the council would need to get guidance before any advice could be given.

**RESOLVED:**

That the update on the pensions administration function be noted.

**14. LOCAL PENSION BOARD UPDATE**

Mike Ellsmore gave a short update on the Local Pensions Board and advised that the McCloud judgement had been a key area of discussion at the last board meeting.

Councillor Lury asked how the fund would communicate to its members regarding the McCloud judgement.

Barry advised that 3,000 members had been identified where benefits 'might' be affected by the McCloud judgement. He advised that the pension fund website would be the main source of communication and would signpost potentially affected members to the issue. All members will be written to in due course setting out what the judgement means and what criteria needs to exist before benefits are recalculated.

Duncan Whitfield added that of those 3,000 members who might be affected, the actual numbers meeting the criteria would be very low. Barry said around 3-5%.

**RESOLVED:**

That the update from the local pension board (LPB) meeting of 7 October 2020 be noted.

**15. ANY OTHER BUSINESS**

Caroline Watson agreed to update Councillor Mann on the matters she had missed due to joining the meeting late as a result of technical issues.

It was noted that the next meeting would be on 3 March 2021.

The meeting ended at 3.47pm.

**CHAIR:**

**DATED:**

