

Investment, Governance and Engagement Committee

Agenda

1.00pm – 3.00pm on 5th February 2018

Item

1. Introductions and apologies
2. Tribute to Councillor Kieran Quinn
3. Actions and agreements from meeting of 16th October (**Paper A**)
4. Changes at DCLG/MHCLG
5. MIFID II - Update
6. Pooling investments – Cross Pool Forum proposal (**Paper B**)
7. Cost Transparency - Update
8. FCA market study - Update
9. Carillion liquidation - Update
10. Responsible investment – Update (**Paper C**)
11. IORP Update
12. AOB
13. Date of next meeting

The venue will be the Cockell Room at 18 Smith Square, Westminster, London SW1P 3HZ (see

<https://www.google.co.uk/maps/place/Westminster,+London+SW1P+3HZ/@51.4955666,-0.1289997,17z/data=!3m1!4b1!4m5!3m4!1s0x487604c2f22fcf31:0x4d27e283349ac875!8m2!3d51.4955757!4d-0.1267826>)

Please report to reception who will direct you to the right floor.

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Item 3 – Paper A

ACTIONS AND AGREEMENTS

MEETING HELD ON 16th OCTOBER 2017 – 1.00pm

At Barnett Waddingham, Cheapside House, 138 Cheapside, London, EC2V 6BW

PRESENT

Cllr Kieran Quinn	Chair
Bob Holloway	SAB Secretary
Mike Ellsmore	CIPFA
Ian Greenwood	LAPFF
Rodney Barton	Practitioner
Colin Meech	Members (Unison)
George Georgiou	Members (GMB)
Annemarie Allen	Actuaries (Barnett Waddingham)
Nigel Thomas	Actuaries (Mercer)
William Marshall	Actuaries (Hymans)
Jeff Houston	LGA
Liam Robson	LGA

APOLOGIES

There were apologies from David Anthony, Danny Hoggan, Mark Wynn and Nicola Mark, all other members (or substitutes) were present.

1. Welcome and introductions

The Chair welcomed all in attendance to the meeting. It was noted that David Anthony was about to be appointed as Head of Finance at the Brunel Pension Partnership and therefore needed to resign from the committee.

ACTION: - It was agreed that as Peter Wallach had been among those shortlisted for the Scheme Advisory Board, it would be appropriate to approach him to consider filling the role as practitioner representative on the committee.

2. Matters arising (Paper A)

The minutes of the previous meeting were agreed.

3. Markets in Financial Instruments Directive (MIFID) II - Update

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The committee were provided with an update on progress on implementing MiFIDII and the opt-up process.

Since the last meeting, all funds had been contacted for confirmation that their opt-up processes had begun (by the end of September). Confirmation had been received from all funds apart from Gloucestershire and Cambridgeshire and Northamptonshire (LGSS). Further communications in October were expected to maintain a status and progress update for each LGPS fund.

It was reported that as the arrangements for treasury were more diverse, no central agreement on forms had been made. It was expected that the LGA would provide some guidance on the process to local authorities in the very near future.

The secretariat were planning to prepare guidance around communications between fund managers and LGPS clients (not opted up with) post January 2018.

4. Pooling investments – Cross Pool Forum consultation

The committee were provided with a summary paper of the results from the consultation. The somewhat mixed response was noted, and while there was clear support for some of the proposals, there was more divided views on membership and remit.

AGREED – that the responses to the consultation should be accepted where there is clear support for the proposal. Some further consideration of the proposals where support was more evenly divided would be needed.
AGREED – the Secretariat to prepare a paper for both the forum and open session by the Board on the 16th November.

5. Cost Transparency

An update on the Code of Transparency was provided. A total of 25 investment managers, representing around £97bn of LGPS assets had signed up to the Code.

The FCA Institutional Disclosure Working Group had met and an overview of the first meeting and scope of work together with the group terms of reference were provided.

The SAB had set up a working group to develop a procurement process and scope to appoint a third party to aggregate and analyse submissions under the Code at a LGPS fund and asset level (not benchmarking).

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An assistant working group of practitioners had met on 18th September to begin its work.

The first meeting of the full working group (to include the SAB Chair, Vice Chair, and Duncan Whitfield) was to be held in November.

6. FCA Market Study - Update

The committee noted that there had been no response back regarding the market study.

The secretariat had received an invitation from the Competition and Markets Authority (CMA), to submit a response to the consultation its “Investment Consultancy Services and Fiduciary Management Services Market Investigation”.

AGREED – that the secretariat should draft a response for the committee to consider.

7. Local Pensions Board survey - Update

The committee noted that 76 responses had been received in total, the vast majority of which had come from Local Board Chairs.

AGREED – the committee noted the preliminary findings set out in the report and tasked the secretariat with preparing full analysis in draft form for committee member comment by the end of October.

8. Responsible Investment - Update

The redrafted responsible investment guide was at a stage where either sharing with DCLG and/or consultation with administering authorities was the next step.

AGREED – that the secretariat should look to share the draft with authorities with a view to producing a more distilled version in the next six months.

9. IORP – Update

The committee noted the letters circulated between the Minister and Department of Work and Pensions DWP, and the planned meeting with the SAB Chair.

10. AOB

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There was no other business as this had been covered earlier.

11. Date of next meeting

The date of the next meeting was to be confirmed, but expected to be in the second week of January 2018. The venue for the next meeting will be GMB offices.

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Item 6 – Paper B

LGPS Cross Pool Information Forum

1.1 At its meeting on the 26th June, the Board agreed in principle that an elected member led Cross Pool Information Forum (CPF) should be established to share and disseminate information on the pooling of LGPS assets. It was also agreed that Chairs of LGPS Pension Committees should be consulted on the remit, membership and frequency of the proposed forum.

1.2 A consultation was run from 17th July 2017 to 29th September 2017 (10 weeks). The consultation document was sent to LGPS Pension Committee Chairs and hosted on the Board website:
<http://www.lgpsboard.org/index.php/board-publications/board-consultations>

1.3 The secretariat received a total of 17 responses to the consultation, including ‘joint’ responses on behalf of the LGPS investment pool groups.

1.4 A summary of the 17 responses is included at Annex 1.

1.5 At its meeting on the 16th November, the Board agreed that the committee should consider those aspects of the consultation response where opinion was divided and return to the Board with final proposals.

Consideration

1.6 The following elements of the consultation therefore requires consideration by the committee :-

Membership

1.7 It was proposed that membership of the CPF should be open to a maximum of three nominations from the member administering authorities of each pool with nominations being either all elected members or a mixture of elected members and others. It was further proposed that the determination of nominees should include consideration of the provision of direct representation for scheme members. Ten pension committees were in favour of the proposal and seven against.

1.8. The reasons given for not supporting the proposal ranged from individual pools being allowed to decide nominees; that nominees should be elected members only and that there should be support for scheme member representation. Given the inconsistent views expressed by those not in favour of the proposals on membership, it would be reasonable to proceed on the basis as set out in the consultation paper,

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Recommendation – that the committee agrees that membership must be a matter for each pool to consider in consultation with their member administering authorities and bearing in mind the Board's previously published statement on scheme member representation.

Chair

1.9 It was proposed that the Chair of the CPF should be selected from amongst the forum's membership. Nine pension committees were in favour and eight against.

1.10 Amongst the eight committees against the proposal, opinion was divided between the Chair being elected within the group to the Chair being independent. If only about 4 respondents out of the total of 17 argued for an Independent Chair, it would be reasonable to conclude that a sizeable majority were content for the Chair to be selected from within the CPF's membership.

Recommendation – that the committee agrees that the Chair of the CPF should be selected from within its membership.

Frequency of meetings

1.11 It was proposed that the CPF should meet at least quarterly. Ten pension committees were in favour of the proposal and seven against. Those against argued that meeting twice a year would be more appropriate given the issues of time and resources.

1.12 To ensure that the initial momentum is maintained, a minimum number of meetings per year should be prescribed. However, in view of the number of pension committees opposed to quarterly meetings, a reasonable compromise would be prescribe a minimum of at least two meetings per annum whilst allowing the CPF, under their terms of reference, to increase the minima.

Recommendation – that the committee agrees that the CPF must meet at least twice a year but allowing the forum to agree, if there is a consensus, to increase the minimum number of meetings per year beyond the two stipulated by the Board.

Conclusion

1.13 If the committee agrees to these recommendations, the format of the CPF would comprise :-

- A non-decision making body;

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- Membership to be decided by each pool in consultation with member funds;
- Meetings held at least twice a year, subject to increase by a consensus of the forum;
- Chair of the forum to be agreed by its membership;
- Voting arrangements not to be applied, and
- SAB Secretariat to support the administration of the CPF.

Cross Pool Open Session

2.1. At its meeting on the 16th November 2017, the Board agreed with the committee's recommendation that the Secretariat should make arrangements for an open session on pooling and invite Chairs of pension committees and local pension boards to attend.

2.2. The open session will be held at 18 Smith Square on the 27th February 2018.

2.3. Recommendation – that the committee notes these arrangements.

Bob Holloway
Pensions Secretary
Scheme Advisory Board

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Annex 1

LGPS Cross Pool Forum Survey Outcome

The Consultation Process and How to Respond

Scope of the consultation

Topic of this consultation:	Local Government Pension Scheme (LGPS) Cross Pool Information Forum
Scope of this consultation:	This consultation seeks responses from Chairs of LGPS pension committees on the remit, membership and frequency of the proposed forum.
Geographical scope:	England & Wales

Basic Information

To:	This consultation is aimed at Chairs of LGPS pension committees.
Body responsible for the consultation:	LGPS Advisory Board
Duration:	17 th July 2017 to 29 th September 2017 (10 weeks)

Background

Getting to this stage:	At the meeting of the Scheme Advisory Board on the 26th June, it was agreed in principle that an elected member led Cross Pool Information Forum should be established to share and disseminate information on the pooling of LGPS assets. It was also agreed that the Chairs of LGPS pension committees should be consulted on the remit, membership and frequency of the proposed forum.
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Help with queries

Questions about this consultation should be sent to the email addresses given below.

Who this consultation is aimed at?

The following consultation is aimed at **LGPS Chairs of Pension Committees**. The consultation is available via the Scheme Advisory Board's website www.lgpsboard.org.

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The Board has issued the consultation to the following contacts directly:

- LGPS Chairs of Pension Committees
- LGPS Fund Investment Contacts

How to respond

You should respond to this consultation by **29th September 2017**.

You can respond by email to Liam.Robson@local.gov.uk and Robert.Holloway@local.gov.uk. Email responses are preferred.

When responding, please ensure you have the words “LGPS Cross Pool Information Forum” in the email subject line.

Alternately you can write to:

Bob Holloway, Pension Secretary
LGPS Cross Pool Information Forum Consultation
Scheme Advisory Board Secretariat
Local Government Association
Layden House, 76-86 Turnmill Street,
London, EC1 M 5LG

When responding, please state whether you are responding as an individual or representing the views of the Pension Committee.

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Consultation

Introduction

- 1.1 At the meeting of the Scheme Advisory Board on the 26th June, it was agreed in principle that an elected member led Cross Pool Information Forum should be established to share and disseminate information on the pooling of LGPS assets. It was also agreed that the Chairs of LGPS pension committees should be consulted on the remit, membership and frequency of the proposed forum.
- 1.2 The same consultation should also seek views on whether a one off open session on progress towards pooling should be organised with an invitation going to all chairs of pension committees and local pension boards.
- 1.3 **The closing date for responses is 29th September 2017.**

Part 1 - Cross Pool Information Forum (CPF)

- 1.4 It is **not** proposed that the CPF be a decision making body nor would its content be technical in nature. It is proposed that its remit would be to receive, share and disseminate information across the pools as well as providing a platform to exchange best practice and items of cross pool interest.
- 1.5 Do you agree that the remit of the CPF should be limited to receiving, sharing and disseminating information as described above?

Yes	No
11	6

- 1.6 **If you answer “no”, please describe below what you think the remit of the CPF should be.**

In General, the comments were along the lines of agreement in principle, but that the formation now might not be the right time, or in a couple of cases that the forum was unnecessary.

- 1.7 It is proposed that membership of the CPF would be open to a maximum of three nominations from the member administering authorities of each pool. The nominations may all be elected members or include a mixture of elected members and others.
- 1.8 In line with the SAB’s previously published statement on pool representation the determination of nominees should include the consideration of the provision of direct representation for scheme members.
- 1.9 Do you agree that membership should be as set out above?

Yes	No
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10 7

If you answer “no”, please describe below how you think membership should be structured.

Varying views were express from; it should be up to the individual pools to decide, to only elected members, to the support for member representation.

1.10 It is proposed that the CPF should meet at least quarterly.

1.11 Do you agree that meetings should be held at least quarterly?

Yes No

10 7

If you answer “no”, please explain below how often you think the CPF should meet.

The comments, in line with the above, indicated that meeting twice a year may be viewed as more appropriate. The issues of time and resources was also raised.

1.12 It is proposed that the Chair of the CPF should be selected from amongst the forum’s membership. Do you agree?

Yes No

9 8

If you answer “no”, please explain below how you think the Chair should be selected.

Split of views between elected from the group to the chair should be independent.

1.13 Given the proposed remit of the CPF as a non-decision making body, it is not proposed to include in its remit any arrangements with respect to voting.

1.14 Do you agree that voting arrangements should not be included in the remit?

Yes No

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If you answer “no”, please explain below why you think voting arrangements should be included.

Reasons given for voting included responding to consultations and voting on whether or not action should be taken.

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1.15 It is further proposed that the Scheme Advisory Board's Secretariat should support the administration of the CPF in terms of arranging meetings, venues, etc.

1.16 Do you agree that the Secretariat should support the CPF in this way?

Yes No

16

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If you answer "no", please explain below how you think administration of the CPF should be supported.

General agreement with the above, but again, concerns were raised over the value the forum may add, costs and officer time and resource.

Part 2 - Open Session

1.17 In order to better enable the open and wide dissemination of information, it is proposed that a session for all chairs of pension committees and local pension boards on the progress towards pooling should be organised.

1.18 Do you agree that an open session of this type would be helpful?

Yes No

16

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Please use the space below if you wish to expand on your response.

It was suggested that there could be two sessions to maximise attendance, compliance and reporting should be the focus rather than detail of pooled funds and support for attendance from a wider stakeholder group.

1.19 If no, please explain that you would change or add and why.

No further comments received.

Part 3 – Respondent details

1.20 Please complete the table below with administering authority and contact details.

Administering Authority:	Click here to enter text.
Contact name:	Click here to enter text.
Email address:	Click here to enter text.

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Item 10 – Paper C

Responsible Investment – Update

1.1. There are three main issues that the committee should be aware of :-

- Publication of a statement on the legal landscape governing the use of non-financial factors in investment decision making;
- Publication of the government's interim statement on Pension Funds and Social Investment (December 2017);
- Publication of UNISON's guide on Divesting from Carbon (January 2018), and

Legal Landscape on non-financial factors.

2.1. At its meeting on the 16th November, the Board agreed that the Secretariat should prepare a statement setting out how the legal landscape applies to non-financial considerations being taken into account when investment policies and decisions are made.

2.2. A copy of the draft statement (see Annex A) was sent to committee members on the 12th December asking for comments by the end of the month. Only one comment, supporting publication, was received.

2.3. Recommendation - that the Board is invited to approve publication of the statement.

Government's Interim Response on Pension Funds and Social Investment

Background

3.1 In response to two reports from the Law Commission on Fiduciary Duty and Social Investment, the government has now published its interim response. A copy of the interim response can be found at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/668301/pension-funds-and-social-investment-interim-response-to-law-commission-report.pdf.

3.2 The two Law Commission reports can be found at <http://www.lawcom.gov.uk/project/fiduciary-duties-of-investment-intermediaries/> and <http://www.lawcom.gov.uk/project/pension-funds-and-social-investment/>

3.3. In general, the government welcomed the Law Commission's recommendations and, in particular supported the Law Commission's view

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that trustees should consider members' ethical and other concerns, and may respond by acting on them where they have good reason to think members share the concern and does not involve a risk of significant financial detriment.

3.4. However, the government went on to say that it is not intended that these measures will give any support to campaign groups for boycotts of certain countries or divestment from certain assets. Trustees have primacy in investment decisions, and their prime focus is to deliver a return to members.

3.5. A full response to this and other recommendations made by the Law Commission from the government is expected in the Summer 2018.

Conclusion

3.6. It would be premature at this stage to make any firm recommendations to the Board until the government has published its full response in the Summer. But before then, the committee may find it helpful to be able to compare the full range of recommendations accepted by the government in its interim response against the current provisions of the 2016 Investment Regulations and statutory guidance. The committee may also wish to recommend to the Board that early discussions should be opened with DWP and MHCLG to ensure that the LGPS' position is fully represented.

3.7. Recommendation – that the Secretariat should prepare a paper summarising the agreements listed in the government's interim response against the ESG provisions of the LGPS and that the Board should be invited to arrange meetings with DWP and MHCLG to discuss next steps and future policy.

UNISON Guide on Divesting from Carbon

4.1. On the 10th January 2018, UNISON, in conjunction with Share Action, published guidance for scheme members about the divest from carbon campaign. A copy of the guide can be found at <https://www.unison.org.uk/content/uploads/2018/01/Divest-from-carbon-campaign.pdf>.

4.2,. The guide has been produced to help implement UNISON conference policy on reducing the impact of climate change and also to help scheme members understand what climate risk is and how it will affect people and the economy.

4.3. Recommendation – that the committee notes publication of the guide

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