

Investment, Governance and Engagement Sub Committee

Item 2 – Paper A

ACTIONS AND AGREEMENTS

MEETING HELD ON 5th February 2018 – 1.00pm to 3.00pm

At 18 Smith Square, Westminster, London SW1P 3HZ

PRESENT

Cllr Denise Le Gal	Chair
Neil Sellstrom	CIPFA
Ian Greenwood	LAPFF
Rodney Barton	Practitioner
Peter Wallach	Practitioner
Colin Meech	Members (Unison)
George Georgiou	Members (GMB)
Annemarie Allen	Actuaries (Barnett Waddingham)
Steve Turner	Actuaries (Mercer)
William Marshall	Actuaries (Hymans)
Karen McWilliams	Actuaries (AonHewitt)
Jeff Houston	Board Secretary, LGA
Bob Holloway	Pensions Secretary, LGA

APOLOGIES

There were apologies from Mark Wynn and Mike Ellesmore. All other members (or substitutes) were present.

1. Welcome and introductions

The Chair welcomed all in attendance to the meeting.

2. Tribute to Councillor Kieran Quinn

Ian Greenwood (IG) led a tribute to Councillor Kieran Quinn who died unexpectedly on Christmas day. A one minute silence followed and was fully respected.

3. Actions and agreements from meeting of 16th October 2017

The minutes of the previous meeting were agreed.

4. Changes at DCLG/MHCLG

Jeff Houston (JH) confirmed that he and Cllr Roger Phillips had met the new Minister, Rishi Sunak MP, earlier in the day. The Minister was keen to talk about investments and pooling but less so on

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matters like Carillion, academies and fair deal. He questioned the need for 88 funds and accepted that scheme governance was “complicated”. He gave the impression that he understood the risks behind affordability and sustainability and confirmed that he will be speaking at the PLSA LGPS conference in May. JH confirmed that his office is aware of the Board’s invitation for the Minister to attend the Board meeting in June.

5. MIFID II update

JH confirmed that every fund had been opted up with every service provider but the view was expressed that difficulties may be encountered in the future as providers go through the opting up process with authorities who are new clients.

Particular issues are being raised by providers in relation to the low level of training received by some committees and the subsequent reliance on consultants.

The Board together with the IA and BVCA are working to produce a Q&A document covering ongoing relationships and communications between MiFID service providers and local authorities as default clients.

AGREED and ACTION – that the Secretariat together with CIPFA, FCA and other stakeholders should continue to monitor the MIFID II reporting process and report back to the committee when appropriate.

6. Cross pool forum proposal

The committee discussed the three issues carried over from the Board meeting of the 16th November 2017, that is, membership, selection of Chair and frequency of meetings.

On membership, there was a clear consensus that to ensure effective representation in the eight asset pools, trade union representatives must form part of the cross pool forum and that each of the eight asset pools should be represented by three elected members and three trade union representatives selected by the three scheme employer representatives on the Board.

It was also agreed that the Chair should be selected from within the forum’s membership and that the forum must meet at least twice a year.

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On the subject of pooling, CM raised the issue of potential discrimination within the TUPE process and to the danger of two tier workforces being created within the new operators. JH accepted that the salary levels being reported will come under criticism in the local media and that defensive briefing will be needed.

Agreed :-

- **that the Board is recommended to approve membership of the cross pool forum to comprise three representatives nominated by the administering authorities of each pool plus three members selected by the scheme member representatives on the Board. (a total of 27 members of the forum)**
- **that the Board is recommended to review its statement on representation to strengthen the position of scheme member representatives in the asset pools.**

Action :-

- **that the Secretariat should undertake work to assess the rights and responsibilities relating to local authority owned arm's length companies in terms of evaluating terms and conditions of employment.**

7. Cost transparency

JH updated the committee on the work of the FCA's Institutional Disclosure Working Party which is developing enhanced templates for all asset classes. At a meeting on 8th February the IDWG will present the results of their work so far and draft templates for both asset managers and trustees together with plans for next steps. It was confirmed that the LGPS Transparency Code will adopt the IDWG's templates when they become available later in the year but that there will be a transition period for managers who have already signed up to the Code.

Colin Meech (CM) expressed concern about the way in which data under the Code of Transparency was being collected. JH agreed that costs must be reported transparently and that work is underway with CIPFA to ensure that the necessary changes to annual reporting requirements and accompanying guidance are made.

Cllr Le Gal (DLG) asked whether there had been any feedback on LGPS templates. JH said that the reaction has been mixed and that there were several issues that might need to be addressed. For

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example, CM reported that rather than inputting a nil return for a “don’t know” answer, some fund managers have inserted a zero giving the misleading impression of a saving being made.

CM enquired about progress of the procurement working group. Bob Holloway (BH) explained that the group had met for the first time in November and that a follow up meeting is to be held immediately after the Board meeting on the 26th February 2018.

AGREED and ACTION – that the Secretariat should continue to monitor the Code reporting process and report back to the committee when appropriate.

8. FCA Market Study - Update

BH confirmed that the FCA’s final policy rules following a series of consultations would be published in the Summer 2018.

9. Carillion liquidation - Update

JH explained that on the assets side, three funds had a small exposure to Carillion and that there was some evidence that certain LGPS funds may have had fund managers who had taken short positions on Carillion stock. There is a risk of reputational damage to the scheme and the Secretariat will continue to check the position to see if this was the case.

On the liabilities side, JH explained that 13 funds had a total of 28 admission agreements with Carillion employers. With one exception, all were in surplus.

IG noted that a better outcome would have been achieved under the “true and fair” accounting standard rather than the European standards currently in force.

[A note summarising the exposure to Carillion on both the assets and liabilities was circulated to committee members on the 6th February 2018]

AGREED and ACTION – that the Secretariat should continue to collect all relevant data relating to Carillion’s liquidation, including any evidence of LGPS fund managers taking short positions on Carillion stock, and report back to the committee.

10. Responsible Investment - Update

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BH explained that no material comments had been made by committee members on the draft statement on non-financial factors circulated in December 2017 but that since then, CM had asked whether the paper should include reference to investments having to be made in the best interests of scheme members. BH explained that neither of the Law Commission's reports or their subsequent guidance had made any specific reference to this and reminded the committee that the statement was a factual statement of the law without any commentary or advice.

The government had published its interim response to the Law Commission's recommendations in December 2017 and has undertaken to consult on new legislation in the Summer of 2018. The committee agreed with IG's comment that any further regulatory work on responsible investment should wait until the government's consultation.

AGREED and ACTION – that the Board should be asked to approve publication of the statement on non-financial factors when it meets on the 26th February 2018 and that the committee should prepare a response to the Government's consultation on new responsible investment regulations.

11. IORP – Update

The committee was asked to note that there has been no further action since the last meeting with DWP and MHCLG officials.

12. AOB

There was no other business.

13. Date of next meeting

The date of the next meeting will be confirmed once the position of Chair has been resolved.

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