

Investment, Governance and Engagement Sub Committee

Item 2 Paper A

ACTIONS AND AGREEMENTS

MEETING HELD ON 14th October 2019 – 1.00pm to 3.00pm
At 18 Smith Square, Westminster, London SW1P 3HZ

PRESENT

Cllr Yvonne Johnson	Chair
Peter Wallach	Practitioner
Rodney Barton	Practitioner
Peter Moore	CIPFA
Glyn Jenkins	Members (Unison)
George Georgiou	Members (GMB)
Annemarie Allen	Actuaries (Barnett Waddingham)
Sophie McClenaghan	Actuaries (Mercer)
William Marshall	Actuaries (Hymans)
Dan Carpenter	Actuaries (Aon)
Teresa Clay	MHCLG
Bob Holloway	Pensions Secretary, LGA
Jeff Houston	SAB Secretary, LGA

APOLOGIES

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

1. Welcome, introductions and declarations

The Chair welcomed all in attendance to the meeting and introductions were made. There were no declarations of interest.

2. Actions and agreements from meeting of 28th August 2019

The minutes of the previous meeting were agreed.

3. Good governance project

Jeff Houston (JH) explained that following publication of the Hymans Robertson report on the 31st July, the two working groups established by SAB had met on two occasions. Certain members were unable to attend in person but telephone conversations were undertaken with them by the project team.

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The first working group is focusing on desired outcomes and processes and how these can be achieved. In line with the decision taken by SAB there will be no recommendations on structural changes. The work of second working group will focus on the independent monitoring and measurement of compliance against the proposed new governance compliance statutory guidance. This could be undertaken by an external organisation or internally provided that the same standards are applied.

A draft paper setting out the findings and recommendations of the working groups will be drafted and shared with working group members for comment by the 18th October. The intention is to agree a final paper by the 23rd October in time for this to be considered by SAB on the 6th November.

Sophie McClenaghan (SH) asked how the proposed training requirement will be policed. JH explained that this will depend on the extent and content of the guidance but there is likely to be a certain level of requirement that could be based on existing standards. There is unlikely to be a requirement for full knowledge and understanding to be in place from day one and instead the expectation will be that the new standard will be reached over a certain timescale. It is also likely to be different from the position of local pension board members where there is a clear legal requirement.

Peter Wallach (PW) asked whether the proposed training requirement would apply to him? JH confirmed that it would apply to all those under the remit of the proposed “responsible person”.

George Georgiou (GG) asked whether any timescale for implementation has been agreed? JH explained that this was up to MHCLG given the need for new governance compliance statutory guidance. SAB will also need to work up the proposed set of key performance indicators. The aim will be have this work completed by the end of the first quarter in 2020.

SM highlighted the potential resourcing impact on the new responsible person and section 151 officers. Peter Moore (PM) alerted members to the work CIPFA is doing in conjunction with Aon on a new code of practice and framework on knowledge and understanding for those responsible for the pensions function. Glyn Jenkins (GJ) referred to the proposed key indicators and expressed the hope that these would take on board the increasing maturity of the scheme and its impact on cash flow, etc. JH confirmed that this would be reflected in the work to be undertaken under phase 3 of the project.

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Agreed – That the committee notes the position as outlined above.

4. Cost transparency - Update

JH explained that Byhiras was successful in the recent procurement exercise that will ensure transparency in the reporting of investment management costs and compliance with the code of transparency. Fund managers will be required to sign a statement that they are compliant with the code and if that is shown not to be the case, both the FCA and SAB will be notified. Byhiras will provide a reporting facility for fund authorities at asset class level. A key element of the exercise has been to ensure that there is a clear separation between the compliance function and other investment work that Byhiras undertakes. Only fund managers and fund authorities will be able to use template level data.

Agreed – That the committee notes the position as outlined above.

5. Responsible investment guidance - Update

Bob Holloway (BH) explained that a draft of Part 1 of the responsible investment guidance had been prepared and circulated to committee members before the meeting. The aim of Part 1 of the guidance is to assist and help investment decision makers to identify the parameters of operation within regulations, statutory guidance, fiduciary duty and general public law and the scope for integrating ESG policies as part of their investment strategy statement. There is no intention to prescribe the extent to which ESG policies must be adopted as this must remain a matter for local consideration and agreement in accordance with MHCLG's statutory guidance.

Members were advised that subject to their agreement, the draft guidance would be submitted to SAB on the 6th November for approval. If approved, SAB would also be asked to approve publication and for a short consultation to run until the end of 2019.

Work on Part 2 of the guidance will commence once the Part 1 guidance has been approved. Part 2 will cover case studies where ESG policies have been successfully adopted as well as relevant reading matter.

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AGREED and ACTION – that committee members should submit any comments on the draft guidance to the Secretariat by the 25th October in time for them to be taken into account in the draft to be submitted to SAB.

6. UK Stewardship Code – Update

BH explained that the FCA will soon be publishing the revised UK Stewardship Code which will go live in January 2020. Signatories to the existing code will need to re-apply under the new code.

Agreed – That the committee notes the position as outlined above.

7. Scheme member representation in asset pools - Update

BH explained that a paper is to be submitted to SAB on the 6th November 2019 setting out the extent to which the eight asset pools are compliant with the SAB guidance on scheme member representation. At present, five of the 8 pools do include some form of scheme member representation in their governance arrangements. Two pools, Welsh Partnership and Access have decided not to include scheme membership representation. The position at LPP is still unclear but further investigations will be made to ensure that their policy can be reported to SAB when it meets in November.

Agreed – That the committee notes the position as outlined above.

8. AOB

CMA Order - JH explained that remedy 1 (obligation to tender Fiduciary Management service) would not apply to the LGPS. Remedy 7 (strategic objectives for external consultants), however, will apply when the CMA Order comes into effect on the 10th December. The requirement will be taken forward by re-defining “proper advice” in statutory guidance but this is unlikely to be achieved in time for the 10th December deadline. Fund authorities are therefore advised to start work up their strategic objectives in anticipation of the Order coming into effect in December.

Agreed – That the committee notes the position as outlined above.

9. Date of next meeting

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The date of the next meeting will be the 13th January 2020.

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