

North Yorkshire County Council

Pension Fund Committee

Minutes of the meeting held on 24 November 2016 at County Hall, Northallerton commencing at 10.00 am.

Present:-

County Councillor John Weighell OBE (in the chair); County Councillors John Blackie, Bernard Bateman MBE, Margaret-Ann de Courcey-Bayley, Roger Harrison-Topham and Helen Swiers.

Councillor Jim Clark – North Yorkshire District Councils.

David Portlock - Chair of the Pension Board.

Other representatives of the Pension Board were in attendance.

Apologies – County Councillor Patrick Mulligan submitted his apologies

Copies of all documents considered are in the Minute Book

147. Exclusion of the Public and Press

Resolved -

That the public and press be excluded from the meeting during consideration of Appendices 1-5 of item 5 and Appendix 1 of item 9 on the agenda on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) Order 2006.

148. Minutes

Resolved -

That the Minutes of the meeting held on 15 September 2016, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

149. Declarations of Interest

County Councillors Margaret-Ann de Courcey-Bayley and John Weighell OBE, together with Councillor Jim Clark, declared non-pecuniary interests in respect of them being members of the Pension Scheme.

150. Public Questions or Statements

There were no questions or statements from members of the public.

Appendices 1-5 to this report were considered in private and the public have no right of access to this. The following is a public summary of business conducted in private.

151. Triennial Valuation 2016 Update

Considered -

The report of the Treasurer updating Members on progress towards the 2016 Triennial Valuation.

The Treasurer highlighted the progress to date including previous discussions at the Pension Fund Committee meetings on 26 February and 15 September 2016, and meetings with representatives of employer bodies. Following consultation with employers, a further report on the final results of the Triennial Valuation was due to come to this Committee in February 2017.

Members queried the different approaches to this Valuation and the previous one. Officers and representatives from the Actuary (Aon Hewitt) explained that this reflected a combination of a legitimate difference in approach to certain aspects of the Valuation between Aon Hewitt and the previous Actuary, and changes that had taken place in the overall context which would apply whichever actuary was undertaking the Valuation. Members were also given assurances regarding the assessment of the strength of the covenants for each employer in informing the primary contribution rate and deficit requirements applicable for 2017-2020.

Resolved -

That the report be noted.

152. Member and Employer Issues

Considered –

The report of the Treasurer advising of the following: that there were 4 new admission agreements and 7 new Academies during the quarter ended 30 September 2016; an analysis of the numbers of active, deferred and pensioner members in the Fund; the performance of the Pensions Administration Team; CIPFA benchmarking results for 2015/16 showing the unit cost for Pensions Administration; the updated Communications Strategy 2016/17; the outcome of the annual check required by HMRC on the growth in each person's pension scheme benefits for the 2015/16 tax year; Member training; and the arrangements for forthcoming Committee meetings and meetings with the Investment Managers.

In response to a question about outstanding IT targets from the 2015/16 Communications Strategy, officers confirmed that these would continue to be pursued as budget allowed, but that they were considered to be desirable rather than essential functions.

Members congratulated the Pensions Administration Team on its excellent performance, especially in the light of increased workload. In particular the importance of the telephone access service was stressed, given that not all scheme members would have access to broadband or be comfortable with self-service on-line options.

Resolved -

That the report be noted.

153. Budget/Statistics

Considered -

The report of the Treasurer advising on the expenditure and income position for 2016/17 to date and the cash deployment of the Fund.

The Treasurer reported that the cash flow position was broadly in line with expectations over the first 6 months of the financial year. Members were reminded that the Fund held a negative cash balance at the end of September 2016 due to investments made following Brexit, but this had now been rectified by a disinvestment from ECM of £41.9m on 10 November 2016, which would also provide sufficient cash to satisfy the Fund's requirements over the current quarter.

Members queried some of the increases in performance fees reported, and were advised that these reflected the increased out-performance by some of the Fund's managers in the recent period.

Resolved -

That the report be noted.

154. Performance of the Fund's Portfolio for the Quarter ending 30 September 2016

Considered -

The report of the Treasurer on the investment performance of the overall Fund, and of the individual Fund Managers, for the quarter ended 30 September 2016; risk indicators; the solvency position; re-balancing; and proxy voting on behalf of the Fund for the quarter ending 30 September 2016.

Geoff Dalton and Dave Lyons of Aon Hewitt summarised the excellent performance over the last three months by virtually all Fund Managers, and the underlying reasons for this. It was however not anticipated that returns would continue at the same high rates as recently experienced.

Over the last 3 years, only 2 of the Fund's managers performed below their benchmark. It was to be expected that there would be some performance below benchmark across the Fund Managers, given the diverse approach across the overall Fund, but that any performance below benchmark was kept under review.

Whilst welcoming the excellent performance and the impact on the solvency of the Fund, estimated at 93% as at 30 September 2016, Members were concerned about the potential future impact of pooling on the good progress achieved for the Fund by the Committee and its supporting officers. Members requested that information on the performance of other pool members over the last 12 months be circulated to all Committee members by email.

Information was also requested regarding changes over time in the risk indicators reported in Section 5 of the report.

Resolved –

- (a) That the investment performance of the Fund for the period ending 30 September 2016 be noted.
 - (b) That information on the performance of other pool members over the last 12 months be circulated to all Committee members by email.
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Appendix 1 to this report was considered in private and the public have no right of access to this. The following is a public summary of business conducted in private.

155. Equity Portfolio: Strategic Currency Hedging

Considered -

The report of the Treasurer reviewing the merits of currency hedging and considering its re-introduction for the Fund, and an accompanying confidential report from Aon Hewitt.

In response to a query regarding the impact of pooling on any decision to re-introduce hedging, the Treasurer stated his view that, as such a decision was an Investment Strategy decision, it would remain within the remit of the Pension Fund Committee even after 2018, although the operational implementation of any such policy may be impacted by the pooling arrangements.

Members noted some of the considerations for and against currency hedging and agreed to give further consideration to the matter at the Investment Strategy Review meeting due to take place the following day, and to consider a further report at the next quarterly meeting of the Committee.

Resolved -

- (a) That further informal consideration be given to the matter at the Investment Strategy Review meeting on 25 November.
- (b) To consider a further report at the next meeting of the Committee.

156. LGPS Investment Regulations

Considered -

The report of the Treasurer noting the new LGPS (Management and Investment of Funds) Regulations 2016 which came into effect on 1 November 2016, and which brought about a number of changes to the management and investment of pension fund money.

The Treasurer highlighted that the new Regulations were less prescriptive than previously, but that they did introduce new powers for the Secretary of State which some may feel concerning in terms of the opportunity to be more directive, in particular in relation to Government's desire to see Funds invest in infrastructure. In response to Members' disquiet regarding the implications of the new regulations, and especially the new powers for the Secretary of State, he stressed that the North Yorkshire Pension Fund would continue to determine its own approach through its Investment Strategy. Members stressed that their overriding responsibility continued to be towards members of the Scheme. They also expressed their concern about the recent loss of

expertise within the Department for Communities and Local Government (DCLG) in relation to the Local Government Pension Scheme.

Resolved -

That the report be noted.

157. Pension Board

Considered -

The draft minutes of the Pension Board meeting held on 6 October 2016. The Chair of the Pension Board, David Portlock, highlighted the Pension Board's current interest in Internal Audit reports and undertook to make the Pension Fund Committee aware of any issues arising from this work. He also advised the Committee that Pension Board member Ben Drake was leading a review of the exercise of employer discretions on the Board's behalf.

Resolved -

That the update be noted.

158. LGPS Pooling Arrangements

Considered -

The report of the Treasurer updating the Committee on the position regarding the Government's proposal to pool the Local Government Pension Scheme's investments in England and Wales.

The Chairman reported that he and the Vice-Chairman had each attended 2 meetings of the Member Steering Group, and updated Members on the discussions at these meetings. Recent meetings had included a detailed briefing on legal matters. The Bond required by the Financial Conduct Authority (FCA) would be €10m. The structure of the new organisation was very formal and would include a Joint Committee of Chairs of Pension Funds. However it would be the Board of the Company, which would probably not include any elected Members, which would make all appointment and removal decisions on investment managers in future. It was planned that BCPP assets would be approximately 50% internally managed and 50% externally managed, covering broader areas to those currently invested in by the North Yorkshire Pension Fund. The internal management costs would be lower under the pooled arrangements, but the focus would be on net of fees performance. The payback period for the set-up costs was anticipated to average of around 6 years.

The Chairman and Tom Morrison had also attended a Local Government Pension Forum meeting where socially responsible investment had been pushed strongly.

The Treasurer reported that representatives from the Pool were meeting with the Minister today to discuss the Pool's response to the Government consultation. Despite concerns expressed at the impact of delays in receiving a response from Government, the Government has currently signalled that there will be no change in the implementation timetable.

The Chairman reported that he had spoken to the Treasurer regarding his view that that it was not ideal to bring a recommendation about entering into a pooling arrangement to either the February meeting of Council, or the AGM in May, and that it

would be preferable to defer this decision until July. However, he had been advised by the Treasurer that a decision should be taken in February, even if final details needed to be delegated to officers. It was acknowledged that Members may not feel comfortable with this. County Councillors would need to understand the basis of the decision they were being asked to take, including the consequences if they were to decide not to agree to enter into a pool. In addition, work was being undertaken to seek views from other employer members of the Fund to feed into the Council decision-making process. The Treasurers of the 12 Funds involved in the pool were due to meet shortly to test whether all can meet the February deadline for decision-making.

Other Members shared the Chairman's disappointment at the apparent passive acceptance of the pooling arrangements by other Funds, but also expressed their desire to work on a positive basis with partners in the pool. Members were reminded that the decision to join the Border to Coast Pensions Partnership (BCPP) pool was linked to it being made up of funds with a like-minded approach to investments. Members also expressed disquiet about the anticipated reduction in the extent of decision-making available to this Committee, which has always been undertaken in the best interests of the scheme's members and employers. The timetable was another area of concern to Members, alongside the costs of setting up the new Pool arrangements, accountability arrangements between the Pool and the Pension Fund Committee, and the potential conflict of interests of officers interested in applying for the new posts to be created.

The Treasurer confirmed that Members' agreement to the funding referred to in paragraph 5.3 of the report was not being sought at this meeting.

Members agreed to hold an additional meeting in January 2017 in order to debate the matter further and agree a recommendation on Pooling Arrangements to be put to the Council meeting on 15 February 2017. The Treasurer informed Members that the current advice from the Monitoring Officer was that the recommendation from this Committee would need to be channelled via the Executive.

It was also agreed that information on LGPS pooling should be included in the Members' Seminar on 5 January 2017, in order that Members are appropriately briefed in advance of the decision required to be taken at Council on 15 February 2017.

Resolved -

- (a) That the report be noted.
- (b) That information on LGPS Pooling be included in the Members' Seminar on 5 January 2017.
- (c) That an additional meeting of the Pension Fund Committee be held in January 2017 in order to agree a recommendation on Pooling Arrangements and associated documentation to be put to the Council meeting on 15 February 2017 for approval.

The meeting concluded at 1.15pm

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