North Yorkshire County Council

Pension Fund Committee

Minutes of the meeting held on 21 November 2013, commencing at 10.00 am at County Hall, Northallerton.

Present:-

County Councillors John Weighell (Chairman), John Blackie, Bernard Bateman MBE, Margaret-Ann de Courcey-Bayley, Roger Harrison-Topham, Patrick Mulligan and Helen Swiers.

Councillor Jim Clark (Local Government North Yorkshire and York).

Copies of all documents considered are in the Minute Book

County Councillors Margarget-Ann de Courcey-Bayley, Patrick Mulligan and John Weighell, together with Councillor Jim Clark, declared non-pecuniary interest in respect of them being Members of the Pension Scheme.

21. Minutes

Resolved –

That the Minutes of the meeting held on 13 September 2013, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record, subject to the addition of County Councillor Patrick Mulligan to the declaration of non-pecuniary interests indicated.

22. Public Questions or Statements

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

23. Member and Employer Issues

Considered –

The report of the Treasurer on the following:-

(a) Admission Agreements.

(b) Annual Allowance.

(c) Performance of the Pensions Administration Team.

(d) Membership Analysis.

(e) The “Call for Evidence”.

(f) Member Training.

(g) Meetings Timetable.

Updates were provided on the following:-

“Call for Evidence”

The North Yorkshire Pension Fund submission had now been sent following consultation with Members of the Committee.

It was noted that three potential collaborative models had been requested through a tender specification that had been issued as follows:-

- A common investment vehicle at England and Wales level, with asset allocation strategy still determined by the local Pension Fund;
- 5-10 common investment vehicles across England and Wales.
- 5-10 merged Funds across England and Wales.

Concern was expressed that the commissioning of work on three potential collaborative models was being undertaken before responses from the consultees were considered. Further clarification of this issue had been sought from DCLG, following which a letter was issued stating that the above options would be considered alongside a review of the responses to the Call for Evidence.

Members stated that they recognised that changes were to take place in terms of the possible amalgamation of Pension Funds and/or their investments, however, it was emphasised that the amalgamation of the administration function may not produce tangible cost savings, particularly in the case of NYPF.

Membership Analysis

A Member noted that the number of active members of the Pension Fund continued to increase and he wondered whether it had been ascertained what where the contributory factors.

In response the Pensions Manager noted that the increase in figures related mainly to the two largest employers. Some of the additional active membership came from auto enrolment, whilst others related to the fragmentation of posts. He noted that work was currently underway clarify the situation. He noted that, of late, numbers opting out following auto enrolment had increased which was likely to have an effect on the figures when the Committee is updated in February 2014.

Resolved –

That the report and issues raised be noted.

24. Governance

Considered –

The report of the Treasurer presenting the conclusions of a Governance Review undertaken by the Fund’s Investment Consultant and a report by the Advisory Panel describing views on how the proposed Pensions’ Board could carry out its role and help to inform what changes, if any, the Committee would propose to governance arrangements in advance of national changes being brought in.

The Treasurer introduced Karen McWilliam representing the Fund’s Investment Consultant, AON Hewitt, who had carried out the Governance Review.

McWilliam described the purpose of the review, being to highlight areas of good practice in relation to the governance of the Fund and also to recommend any areas for improvement. The approach compared NYPF's current practices against the Aon Hewitt governance framework.

The report concluded that the governance of the Fund is at a high level.

At the conclusion of McWilliam's presentation, Members raised a number of issues, which included the following:-

- A Member questioned the basis for the review and asked how much it had cost, noting that discussions had taken place at previous meetings on this matter. He also noted that the County Council's Audit Committee plays a significant role in monitoring the Governance of the Pension Fund Committee including managing risks, but this did not appear to be mentioned within the review. In response the Treasurer noted that the PFC focusses on risks in relation to NYPF but that the Audit Committee's role is to consider them in the wider context of risks to the County Council.

  A Member asked whether it would be appropriate for the PFC to have its own Audit Sub-Committee to undertake that process. The Fund's Independent Investment Adviser stated that it would be very unusual for a PFC to take this approach rather than the PFC itself consider risks in more detail. A Member suggested that an Audit Sub-Committee of the PFC could specialise on the monitoring of risks to investments, which was not the remit of the current Audit Committee. The Treasurer indicated that everyone on the PFC was interested in overseeing these issues therefore such a sub-committee would likely be made up of the same people.

  The Treasurer added that consideration would be given to the PFC spending more time considering risks if it was considered appropriate, in response to one of the Report's recommendations.

  In terms of the other issues raised initially by the Member, the Treasurer stated that the initial reason for the review was to respond to the Myners Principle, "effective decision making". Details of the cost would be provided outside the meeting.

  In relation to the second issue raised within the report regarding the Advisory Panel's views on the proposed Pensions Board, the Treasurer noted that the Chairman of the Advisory Panel was unable to attend today's meeting, however, a representative of the Advisory Panel was in attendance to assist with the Committee's consideration of this matter. Members thanked the Advisory Panel for the report.

  The Treasurer noted that the Advisory Panel had views on training that should be undertaken by Members of the PFC. Whilst the Panel recognised that a number of Members of the Committee had a great deal of experience and had served on that body for a number of years they also realised that new members to the Committee would benefit from having introductory training enable them to deal with this issues more effectively. They also suggested that there should be an on-going training programme to ensure that Members were updated on issues relating to the Pension Fund. They suggested that training should be mandatory for both Members of the Pension Fund Committee and of the Advisory Panel.

A Member noted that recent training events and conferences attended had indicated that some form of mandatory requirement in terms of PFC Members would be in place at some time in the near future.

Noting the experience of many of the current Members of the PFC, Members suggested that a "one size fits all" approach to training would not work. It was suggested that care be taken in expressing support for a mandatory training regime, as that could include revisiting the basics which may not be of any value. It was considered appropriate that a minimum level of training be provided for new PFC Members and representatives of the Advisory Panel, with training for experienced Members being pitched at a level that was appropriate to individual needs. A number of Members considered that the workshop events organised outside of the formal meetings provided excellent training for Members of the Committee.

In respect of the issues raised by the Advisory Panel in relation to the Pensions Board, it was noted that due to a lack of national guidance currently available it was difficult to describe a full picture of how the Board would operate for NYCC, including the interface with the PFC. A number of uncertainties were described. McWilliam stated that she was serving on national groups that were considering this matter and would feed in the need for guidance. The report requested that the PFC consult with the Advisory Panel when setting up the Pensions Board, to which Members agreed.

Resolved –

(i) That the contents of the report be noted;

(ii) That the recommendations included in the Governance Review Report be noted and the proposed responses to those recommendations as set out in paragraphs 2.5 to 2.8 of the report be approved;

(iii) That the Treasurer develop a programme of mandatory training for new Members appointed to the Pension Fund Committee, and also to consider options for making additional training available to experienced Members alongside the current workshop arrangements and externally hosted training events, with the programme being submitted to a subsequent meeting of the Committee for consideration and approval; and

(iv) That the report of the Advisory Panel be noted.

25. Budget/Statistics

Considered –

The report of the Treasurer on the following issues:-

(a) The expenditure/income position to date for 2013/14;

(b) The cash deployment of the Fund; and

(c) The long term net cashflow forecast for the Fund.

The report outlined that the cash surplus for the period to 30 September 2013 (£9m) exceeded the budget (£5.2m) by £3.8m. This was due to income for the period exceeding the forecast by £4.3m while expenditure was expected to be marginally higher than anticipated by £0.5m. The cost of benefits paid to the end of September was £1.4m less than budget. It was anticipated that elevated pension and retirement grant costs would be incurred during Quarter 3 therefore no adjustment had been made to the benefits expenditure forecast.

Strong investment performance resulted in the cost of performance related management fees (£2.1m) exceeding the initial budget (£0.4m) by £1.7m.

Early retirement contribution income for the six months to 30 September (£2.1m) was £0.6m higher than anticipated.

Transfer income of £6.8m exceeded the budget for the period (£3.5m) by £3.3m. The forecast had been revised to take this into account.

The transfer expenditure for the period of £1.4m was lower than anticipated by £1.1m.

Cash generated in the year by the annual surplus, together with the opening balance of the interest earned and how that had been distributed, was outlined within the report.

The Treasurer stated that a review of the ongoing cash position of the Fund had been undertaken as part of the 2013 Triennial Valuation. As a result two long range net cash flow forecasts had been produced. The forecasts indicated that the scheme would maintain a positive net cash flow until 2018, assuming all investment income was reinvested. This positive cash flow would be extended to approximately 2022 if investment income were to be used for cash flow purposes. As a result there was no need to consider income generating investment opportunities at this time. The issue would be revisited periodically with the Actuary and as part of the 2016 Triennial Valuation process.

Members sought clarification on the re-investment of income, particularly in relation to the property portfolio. In response it was noted that both Threadneedle and Legal & General automatically reinvested income but Hermes did not. The approach taken by each manager reflected the rules under which each fund is requires to be managed.

Resolved –

That the report be noted.

26. 2013 Triennial Valuation - Update

Considered –

The report of the Treasurer advising Members on the latest position regarding the Triennial Valuation 2013.

The report outlined the following:-

- Progress to date.

- Key changes since the 2010 Triennial Valuation.

    - LGPS 2014.
    - Demographic assumptions the membership profile.
    - Financial assumptions.

- NYPF deficit.

- 2013 Valuation results.

    - Deficit and funding level as at 31 March 2013.
    - How the deficit figure had changed over the three years to that date.
    - Future service rate.
    - Average employer deficit contributions.
    - Key data used in the 2013 Valuation.

- Controlled flexibility policy.

- Timescales.

- Funding Strategy Statement.

The Treasurer stated that the matters presented to the previous PFC in relation to the 2013 Triennial Valuation had now been presented to employers, and the issues had been reasonably well received.

It was also noted that not all controlled flexibility options were available to all employers. It was explained that the availability of the options had been agreed with the Actuary and that stronger covenant employers would have more options available than weaker covenant employers

In terms of the controlled flexibility details were set out in the report and it was noted that an employer may be permitted to adopt a bespoke investment strategy whereby the employer takes responsibility for the investment strategy for their share of the investments. A Member asked if this would be at an additional cost to the Fund, and officers responded that additional administrative costs would be passed on to the employer. It was noted that, currently, no employers made use of this option.

Members asked why the particular option of adopting a bespoke investment strategy was being offered to employers if, ultimately, the PFC could decide not to allow it. It was noted that although employers would not be actively encouraged to undertake this particular option, there were situations where this could be appropriate, for example for an untypical funding level. A Member noted that this approach had been allowed in the past with one particular employer desiring a particular investment strategy.

Members debated whether the wording of this particular flexible option should state that it would be granted to employers in exceptional circumstances or whether the option should be removed altogether.

The Investment Consultant noted that many other Pension Funds were now introducing this type of flexibility and that NYPF was ahead of the game.

It was suggested that paragraph 5.1 (e) should be altered to state that an employer may be permitted to adopt a bespoke investment strategy in exceptional circumstances.

Members asked whether employers' contribution rates would go up. In response the Treasurer stated that the final contribution rates would be submitted to the next meeting of the PFC and details would be provided to employers shortly, however, it was likely that the contribution rates would be increased for most employers.

Resolved –

(i) That the results of the 2013 Triennial Valuation be noted.

(ii) That the terms of the controlled flexibility options that are made available to employers, in line with the timescales set out in Section 6 of the report, be agreed, subject to an amendment being made to paragraph 5.1 (e), as detailed above;

(iii) That it be noted that a draft of the revised Funding Strategy Statement be circulated to all employers for consultation with the details referred to in (ii) above.

27. Performance of the Portfolio

Considered –

The report of the Treasurer providing the investment performance of the overall Fund, and of the individual fund managers for the quarter to 30 September 2013 and the twelve months ending on that same date.

A document was also provided by BNY Mellon Asset Servicing (MAS) giving a performance analysis of the Fund for the quarter and year ending 30 September 2013.

The report highlighted the performance of the total Fund by asset class against the customised benchmark. It also provided an analysis of the performance of each manager against the specific benchmark and the comparison of performance levels over time.

The Treasurer stated that the absolute overall return for the quarter (+5.6%) was above the customised benchmark for the Fund (+2.6%) by 3%. The twelve month absolute rolling return was +22.5%, 6.2% above the customised benchmark. The absolute and relative returns over the last four quarter ends were provided, together with fund managers' performance details.

Appendices were provided with the report to present a fuller picture of recent investment performance, with the following details provided:-

- Fund manager performance over three years to 30 September 2013.
- Performance of NYPF relative to other LGPS funds over the last ten years.
- Solvency position since the 2001 Triennial Valuation.
- Solvency graph.
- Details of rebalancing up to the date of the report.

Separate reports of the Investment Adviser and Investment Consultant were provided.

Other issues outlined within the report included:-

- Overseas equities.
- UK equities.
- Fixed income.
- Property.
- Diversified Growth Funds.
- Risk indicators.
- Solvency.

- Rebalancing.
- Proxy voting.

Members discussed the performance of the investments with the Treasurer, the Independent Investment Adviser and the Investment Consultant and the following issues and points were highlighted:-

- UK investments in respect of energy markets and the risks associated with recent political statements.

- Equities strategy.

- The performance of the respective Fund Managers and their impact on investments.

- Issues to discuss at the forthcoming workshop.

- Issues to discuss at forthcoming meetings with fund managers.

Resolved –

That the investment performance of the Fund for the Quarter and 12 months ending 30 September 2013 be noted.

28. Fund Manager Matters

Considered –

The report of the Treasurer updating Members and seeking comments on:-

(i) The allocations to Property.

(ii) The Investment Strategy Workshop.

(iii) The approach to Currency Hedging.

<u>Allocations to Property</u>

It was noted that the target allocation for property as an asset class was to be shared between the three property managers Hermes, Legal and General and Threadneedle and would between 5% and 10% of the Fund. At the end of September 2013 the allocation stood at 4% rising to 4.2% at the end of October 2013. Members had previously agreed that further transfers be on hold unless suitable attractive opportunities on the secondary market became available or until the outlook for property improved sufficiently. The latest advice was that this position should remain for the time being.

<u>Investment Strategy Workshop</u>

Details of the Investment Strategy Workshop led by AON Hewitt which took place on 25 October 2013 were provided.

It was noted that Members agreed that the current strategic asset allocation was appropriate in the context of the Fund's solvency position and recovery plan and that no change at this level was required at this time. The decision could be revisited in the future as the prospects for individual asset classes changed materially.

Details of the minimum, maximum and current percentage allocations for each asset class were outlined. A minimum holding in equities would require a maximum holding in other asset classes and vice versa.

It was noted that Members agreed that a further workshop should take place early in the New Year to look in more detail at the Fund's equity and bond allocation in light of the economic outlook for the asset classes the Fund was currently investing in and those that it was not.

Members suggested that the meeting would be better held in early January and consideration would be given to holding the workshop on 16 January 2014, dependent upon the availability of Members.

Currency Hedging

At the investment strategy workshop on 25 October Members discussed the pros and cons of currency hedging, the Funds current approach to hedging 25% of the currency exposure through investment in overseas equity markets, and possible alternatives to that approach. The majority view was to cease the current approach with a proposal to be brought to this meeting as to how and when this could happen.

An Appendix to the report showed the inflows/outflows since January 2010 when the Committee changed the hedge from 50% to 25% of the total currency exposure through investment in overseas equity markets.

It was suggested that, further to advice from the Fund's Investment Consultant, the hedge be not rolled over, starting from December 2013 so that the Fund gradually unwound the position and would be unhedged by the end of February 2014. Further consideration could be given to whether the Fund wished to consider taking active currency positions from time to time at the next investment strategy workshop.

Resolved –

(i) That the current strategic asset allocation as set out in paragraphs 3.2 to 3.3 of the report be reaffirmed;

(ii) That the next Investment Strategy Workshop be held in early January 2014, possibly the 16th, dependent upon the availability of Members; and

(iii) That agreement be given to the unwinding of the passive currency hedge as set out in paragraph 4.4 of the report.

29. Exclusion of the public and press

Resolved –

That the public and press be excluded from consideration of the following item – Administration arrangements – as this would involve the likely disclosure of exempt information as defined by paragraph 5 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) Order 2006.

The Chairman agreed to take the following item as an urgent item, following discussions with the Treasurer and the Vice-Chairman, as the matter had arisen in close proximity to a meeting of the Pension Fund Committee and, therefore, could be debated by the whole Committee rather than invoking the delegated process as agreed in Minute Number 13 (iv) 2013/14 – North Yorkshire Pension Fund – Litigation activity.

30. Administration Arrangements

Considered –

The report of the Treasurer seeking Committee approval for the Fund to be represented by Robbins, Geller, Rudman and Dowd LLP (RGRD) in a legal action.

The confidentiality of the issue being discussed is reflected in the Minutes.

Members discussed the proposal with the Treasurer and Officers of the Fund.

Resolved –

That the Treasurer be authorised to sign the Robbins, Geller, Rudman and Dowd LLP Retainer Agreement to join the case in respect of this action as a co-lead plaintiff.

The meeting concluded at 12.15 pm.
SL/ALJ