North Yorkshire County Council

Pension Fund Committee

Minutes of the meeting held on 20 February 2013, commencing at 10 am at County Hall, Northallerton.

Present:-

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

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

Apologies were received from County Councillors John Blackie, Bernard Bateman MBE and Sam Cross.

Copies of all documents considered are in the Minute Book

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

31. Minutes

Resolved -

That the Minutes of the meeting held on 21 November 2013, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

32. Public Questions or Statements

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

33. Member and Employer Issues

Considered -

The report of the Treasurer on the following:-

(a) Admission Agreements.

(b) LGPS 2014.

(c) “The Call for Evidence”.

(d) Collaboration activity.

(e) Membership analysis.

(f) Communications strategy.

(g) Member training.

(h) Meetings timetable.

The Treasurer highlighted the following in relation to the above issues:-

He noted that City of York Council were seeking approval to the creation of two admission agreements in respect of their Community Equipment Loan and Telecare Alarm Service (CELTAS) and the Libraries and Archive Services, which were moving to social enterprise arrangements from 2014. Details of the arrangements and admission agreement requests were provided in Appendices to the report.

In respect of "the Call for Evidence" from the DCLG the Treasurer noted that there had been a considerable response especially from Local Government Fund Authorities. A link to the details of the responses was provided within the report. He noted that most of the responses came to a similar conclusion to that of the North Yorkshire Pension Fund that the link between scale and efficient fund management was unproven. The responses from CIPFA and the Society of County Treasurers both shared the view.

In terms of the LGPS 2014 the Pensions Manager stated that the Pensions Administration Team was on top of the delivery of the new scheme despite a number of key regulations only being delivered during the late stages of the transition. It was noted that, currently, little mention had been made of the eligibility of elected Members to continue to be part of the Pension Fund Scheme and it was expected that clarification of that would now be provided at a later date. The Treasurer paid tribute to the Administration Team in relation to them being in a position to deliver the LGPS 2014.

The Pensions Manager noted that Lincolnshire Pension Fund, currently administered by Lincolnshire County Council, was looking for a partner to help develop a shared service with them from 1 April 2015. He stated that North Yorkshire Pension Fund had expressed an interest in this partnership and, as a result, had been placed on a shortlist of six for this project. The potential benefits of the development of the partnership were outlined and it was stated that Members would be kept informed of developments of this as discussions were continuing currently.

Membership analysis provided details of the current membership numbers which confirmed that the number of actives was increasing despite the numbers within Local Government currently decreasing. It was noted that the figures provided related to details obtained in respect of the Pension Fund and did not reflect the number of FTEs as those figures would be provided by the employers. It was stated that an analysis of FTEs would be provided for consideration at the May meeting of the Pension Fund Committee.

Details of the 2014/15 NYPF Communications Strategy would be submitted to the next meeting of the Pension Fund Committee and would follow a similar format to the previous Communications Strategy.

Resolved -

(i) That the report be noted.

(ii) That approval be given to the admission agreement request submitted by the "Be Independent" group;

(iii) That approval be given to the admission agreement request submitted by the “Explore Libraries and Archives” Group.

34. Governance of the Fund

Considered -

The report of the Treasurer seeking Members’ support to an amendment to the County Council’s Constitution in so far as it relates to the Pension Fund.

The Treasurer highlighted an issue that had arisen in relation to one of the functions delegated to the Treasurer as described in the County Council’s Constitution which delegated the function to the Corporate Director - Strategic Resources, who is also the Treasurer of the Pension Fund, “to manage from day to day the Pension Fund, including the exercise of the Council’s functions as administering authority, where such exercise does not involve use of discretion”. The use of the term “discretion” indicated that no decisions could be made by the Corporate Director - Strategic Resources but clearly there were circumstances in which decisions had to be made, for the operational effectiveness of the Pension Fund, without the need for Member involvement. It was suggested, therefore, that the wording be amended to state “to manage from day to day the Pension Fund, including the exercise of the Council’s functions as administering authority, subject to any specific instructions that might be given from time to time by the Pension Fund Committee”.

Resolved -

That the proposed amendment, as described above, be supported.

35. 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.

(c) The proposed budget for 2014/15.

(d) The transfer of Probation Service assets.

The report outlined that the cash surplus for the period to 31 December 2013 (£11.9m) exceeded budget (£7.7m) by £4.2m. This was due to income for that period exceeding the forecast by £5.4m while expenditure was higher than anticipated by £1.2m. The cost of benefits paid to the end of December was £0.7m less than budget. The administration expenses had exceeded budget by £0.1m for the period which was attributable to ICT development and licensing costs for the new pensions’ administration system. It was noted that due to strong investment performance the cost of performance related management fees (£2.3m) exceeded the initial budget (£0.6m) by £1.7m.

Transfer income of £9.4m exceeded the budget for the period (£5.3m) by £4.1m. Much of this was attributable to the bulk transfer of staff to Askham Bryan College, with the remaining variance representing an unusual and unpredictable value of transfer receipts over the period.

Transfer expenditure of £2.3m was lower than anticipated and the 2013/14 forecast had been adjusted accordingly. Details of the cash deployment that had taken place during 2013/14 to date was outlined and it was noted that the Fund had taken advantage of the ability to adopt an overdrawn position for the purposes of rebalancing. It was stated that the negative cash position would be rectified within the required timescale.

Details of the proposed 2014/15 budget were appended to the report.

Details of the transfer of the Probation Service assets to the Greater Manchester Pension Fund were provided. The details included information outlining how the overall Fund deficit would decrease by £4m, however, the cash value of the required transfer would be around £29m and an investment would be required in order to fund the transfer.

Resolved -

(i) That the report be noted; and

(ii) That the 2014/15 budget be approved.

36. Performance of the Portfolio

Considered -

The report of the Treasurer highlighting the investment performance of the overall Fund, and of the individual fund managers, for the quarter to 31 December 2013 and the 12 months ending on that same date.

A document was also provided by B and Y Mellon Asset Service (MAS) giving a performance analysis of the Fund for the quarter year ending 31 December 2013.

The report highlighted the performance of the total Fund by asset class against the customised benchmark. It also provided 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 (+4.7%) was above the customised benchmark for the Fund by 1.6%. The 12 month absolute rolling return was +20.9%, 5.5% above the customised benchmark. Details of 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 managers' performance over the three years to 31 December 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.
- Global equities.
- UK equities.
- Fixed income.
- Property.
- Diversified Growth Funds.
- Risk indicators.
- Solvency details.
- Rebalancing.
- Proxy voting.

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

- The current strong performance of the Fund's investments.
- A comparison of the Fund's performance to that of other similar Funds would be submitted to the next meeting of the Committee.
- The performance of Amundi, particularly in relation to their performance in the currency markets as opposed to the bonds markets.
- The diversification of the investment strategy.
- The performance of Fidelity as opposed to the other Fund Managers.
- The development of the investment strategy to a lower risk strategy, with less volatility.
- The need to be cautious in relation to the upsurge in the markets and the potential for those to remain volatile for a lengthy period.
- A request for details on a specific investment, which it was stated would be the subject of a report to a subsequent meeting.
- Details of the solvency position.

Resolved -

That the investment performance of the Fund for the quarter and 12 months ending 31 December 2013 be noted.

37. 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.

Allocations to Property

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 be between 5% and 10% of the Fund. At the end of December 2013 the allocation stood at 4.7% (£96m). An increase of 0.7% during the quarter included £14.1m transferred to Threadneedle from cash reserves. Members had previously agreed that further transfers be put 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.

Investment Strategy Workshop

Details of the investment strategy workshop, which had been arranged to review the Fund's current allocation to equities, took place on 16 January 2014 and looked specifically at:-

- Prospects for equities as an asset class.
- An analysis of individual managers, their performance and portfolio characteristics.
- An analysis of the overall equity portfolio and the fit of the managers.
- Possible next steps.

The workshop sought to address the following specific objectives:-

- Do Members have confidence in the current equity managers?
- Based on the individual manager's analysis do Members wish to change any managers?
- Are Members happy with the overall structure of the equity portfolio?
- Does the overall portfolio have a suitable regional allocation?
- Based on the overall analysis do Members wish to change/add managers?

As a result Members had stated that there was sufficient confidence in all three equity managers and agreed that no imminent changes were required. A small degree of concern had been expressed in respect of the following, however:-

- The relative risk the Fund was exposed to through the portfolio managed by Standard Life.
- Fidelity's ability to achieve their performance target of 2% above their benchmark.
- The size of mandates with each of the equity managers.

To respond to those concerns Members decided that further research should be undertaken on the merits of adding a fourth mandate to complement the existing three. As a result of that an additional Fund Manager had been invited to a subsequent fund managers' meeting to explore the possibility of developing investments with a fourth mandate.

The Treasurer emphasised that there was no need for an immediate decision on this matter, however, Members were being provided with an opportunity to consider this matter further.

It was noted that Members may also wish to consider whether any rebalancing should take place considering the recent strong performance of global equity markets, in advance of exploring any other investment possibilities. Details of the asset allocation and related comments were identified in the report of the Investment Consultant provided in respect of the previous item.

Members discussed the issues outlined above with the Treasurer, officers of the Fund and the Investment Consultant and the following issues and points were highlighted:-

- It was hoped that a new investment manager may generate ideas as how to reduce volatility without having a major downturn on returns, through the development of an appropriate mandate.
- It was noted that investment in equities currently stood at 67% and the benchmark was 62% which provided a leeway of 5% for alternative investments.
- Consideration could also be given to altering this benchmark position.
- A further manager may provide opportunities in equities that the other managers do not currently provide.
- It was suggested that nothing should be done in respect of the situation at the present time as the current investment performance was good. In respect of this it was suggested that consideration still had to be given as to how to reduce volatility as, although performance was good currently, unless a position had been identified to reduce the volatility, any sudden downturn would result in the same position as previously. It was again emphasised that there was no current urgency to develop this position, however, there was a need for the Committee to move forward on this matter.
- It was emphasised that equities had been a good asset class for the Fund and there may be need to wait a period of time to see how other classes were performing before looking to lower investments in these.
- Details of the fund manager that would be attending the meeting on the day following the Pension Fund Committee were provided.
- Members agreed that consideration of new opportunities could be advantageous to the Fund and its investments would be beneficial.
- Discussion took place in respect of the current Fund Managers, the differences in their performance and the advantages and disadvantageous that they brought to the investment position of the Fund.

Resolved -

(i) That the conclusions reaches at the workshop held on 16 January 2014 be noted;

(ii) That subject to the updates and presentations highlighted within the report, Members decide whether they wish to pursue adding a fourth equity manager, and if so, provide sufficient guidance to officers and advisers; and

(iii) That further consideration be given to any rebalancing that could take place, subsequently.

38. 2013 Triennial Valuation - Update

Considered -

The report of the Treasurer requesting Members to approval the formal 2013 Triennial Valuation report from the Actuary.

The report outlined that following the Pension Fund Committee meeting on 13 September 2013 a consultation meeting was held with representatives of the Fund's employing bodies which provided them with details of the presentation given to Members of the Pension Fund Committee, together with the issues that had been raised during that presentation. Following that the Pension Fund Committee noted the updated 2013 Valuation position and agreed the flexibility option, the availability of which would be based on the specific circumstances of each employer.

Employers were provided with their proposed future service rate and deficit contribution requirements together with a draft of the funding strategy statement and discussions took place between officers and a number of employers on the options for flexibility based on their particular circumstances. Few comments were provided in respect of the funding strategy statement. A number of employers made specific requests to use the options for flexibility and amend their contribution requirements. These had been discussed and agreed with the Actuary and were reflected in the report.

Employers had been categorised based on their strength of covenant, with strong covenant employees being allowed the greatest flexibility. The categorisation was used as the guide as to which flexibility options would be made available to which employers. It was noted, however, that the individual circumstances of the employer were the most important determining factors.

The provisional valuation results suggested that the majority of employees would need to take advantage of options for flexibility in order to achieve reasonably stable contribution levels. The major issue subsequent to 31 March 2013 were changes in the financial assumptions that Actuary used to value liabilities. The Actuary agreed that these changes could be taken into account for some employers which would consequently improve funding levels.

As a result six employers were allowed to reduce their contributions paid over to the Fund, due to them having funding levels of over 100%. Thirty nine employers were permitted to use post March 2013 changes in financial assumptions to maintain stable contribution levels. Six strong covenant employers were permitted to use additional anticipated changes to achieve the same result.

No employers were permitted to extend the deficit recovery period or to use an improved investment return allowance. No employers requested phasing in increases in contribution requirements. No employers enquired about having their own bespoke investment strategy.

Although most employers saw an increase in their future service rate deficit contribution requirements reduced due to improved funding levels. This may result in a stabilisation of contribution requirements in cash terms however some employers would see a significant rise in total contributions as a percentage of pensionable pay due to staff reductions since the 2010 valuation.

Details of a schedule of contribution requirements for the three years 2014/15 to 2016/17 were attached to the report. The schedule included details where officers had discussed the terms of early retirement of deficit contributions as permitted by the Actuary and early repayment arrangements were subject to agreement on the accounting treatment by the Fund’s auditor. Any subsequent amendments to the schedule would be delegated to the Treasurer, subject to Member approval.

The Actuary’s formal valuation report was subject to the confirmation of the Pension Fund Committee of the schedule of contribution requirements. The content of the valuation report had previously been discussed with Members and there were no changes to the key assumptions or financial circumstances that had previously been agreed. A draft valuation report would be reviewed by Mercers before being formally certified prior to 31 March 2014. A copy would be circulated to Members of the Committee as soon as that was available.

A discussion took place regarding the County Council’s contribution requirements and how the Treasurer differentiated between administering the Pension Fund and being the Financial Officer for the County Council.

Resolved -

(i) That, subject to any comments submitted by Members up to 28 February 2014, the updated funding strategy statement be approved;

(ii) That subsequent changes to the schedule of contribution requirements be delegated to the Treasurer, and, following any such changes approval be given to the schedule of contribution requirements; and

(iii) That the final results of the 2013 Triennial Valuation be approved and receipt of the final valuation report from the Actuary before 31 March 2014 be delegated to the Treasurer.

It was noted that the Fund's Investment Adviser had been unable to attend today's meeting, but would be in attendance at the following day's Fund Managers' meeting.

The meeting concluded at 11.25 am.

SL/JR