

North Yorkshire County Council

Pension Fund Committee

Minutes of the meeting held on 10 July 2014, commencing at 10 am at County Hall, Northallerton.

Present:-

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

Apologies were received from County Councillors Bernard Bateman MBE and Sam Cross; together with Councillor Jim Clark (Local Government North Yorkshire and York).

Copies of all documents considered are in the Minute Book

County Councillors Patrick Mulligan, Margaret-Ann de Courcey-Bayley and John Weighell declared non-pecuniary interests in respect of them being members of the Pension Scheme.

46. Exclusion of the Public

Resolved -

That the public be excluded from the meeting during consideration of Appendix 1, Minute no. 53 - Fund Manager Matters - on the grounds that it involves 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.

47. Minutes

Resolved -

That the Minutes of the meeting held on 22 May 2014, 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 John Blackie to the list of those present at the meeting.

48. Public Questions or Statements

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

49. Consultation and Structural Reform of the LGPS

Considered -

The report of the Treasurer seeking Members' approval of the North Yorkshire Pension Fund's response to the consultation on structural reform of the LGPS.

The Treasurer noted that Members had been provided with details of the draft response and that the deadline for the submission of the response to the DCLG was 11 July 2014.

Members indicated that they were satisfied with the response outlined.

Resolved -

That the North Yorkshire Pension Fund's response to the consultation on structural reform of the LGPS be approved.

50. Consultation on Draft LGPS Regulations on Scheme Governance

Considered -

The report of the Treasurer informing Members of the latest consultation on LGPS regulations on scheme governance.

Details of the issues raised within the consultation were provided within the report and it was noted that Members received a presentation at their meeting held on 28 June 2013 in relation to the arrangements being suggested within the consultation. The new arrangements for Pension Fund governance would have to be implemented by 1 April 2015.

In terms of those arrangements, the Treasurer noted that a Pension Board would need to be established, to run in conjunction with the Pension Fund Committee. The Pension Board would consider governance arrangements for the Pension Fund, but would not be involved in areas relating to investments.

In view of the onset of the Pension Board the Treasurer asked Members to consider whether they considered it appropriate for the current Advisory Panel to remain within the governance framework. It was suggested that it would be appropriate for the Pension Board to replace the Advisory Panel, but be provided with informal briefings in respect of the work undertaken by the Pension Fund Committee, to provide them with a higher level of knowledge, in line with what the Advisory Panel was currently provided with. Members considered this to be an appropriate way forward for the development of the arrangements, but suggested that the informal briefings be limited to around two per year, rather than after each meeting of the Pension Fund Committee.

It was considered appropriate that the Advisory Panel be consulted in relation to the establishment of the Pension Board, allowing their input into how this would be processed.

A Member emphasised that the current governance arrangements for the North Yorkshire Pension Fund were of good quality and did not see the benefit of moving to the new arrangements. It was noted that this would have to take place due to the change in the LGPS governance regulations.

The Treasurer noted that a previous response had been provided to an earlier consultation on this issue and any subsequent response from the North Yorkshire Pension Fund would be likely to closely reflect what was submitted before.

Resolved -

- (i) That the previous response to the consultation be re-submitted as the formal response to the current consultation from the North Yorkshire Pension Fund; and

- (ii) That consideration be given to replacing the current Advisory Panel with the Pension Board, including consultation with the existing Advisory Panel, with a formal proposal on the arrangements being brought to the meeting of the Pension Fund Committee taking place in September 2014.

51. Governance Arrangements

Considered -

The report of the Treasurer seeking the Committee's approval of certain governance documents required to accompany the Statement of Final Accounts of the Pension Fund and present to the Committee the findings of the Independent Professional Observer on the Fund's governance arrangements.

The Treasurer stated that the Pension Fund Committee was provided with a full set of governance papers to comment upon before they were included within the Annual Report of the Pension Fund Committee, the approved documents would then be submitted to the County Council's Audit Committee as part of their determination of the North Yorkshire Pension Fund's draft Statement of Final Accounts.

He noted that there had been either no, or very minor, amendments to the following documents:

- ◆ Statement of Investment Principles.
- ◆ Governance Compliance Statement.
- ◆ Communication Policy Statement.
- ◆ Pensions Administration Strategy.
- ◆ Treasury Management SLA.

The Communications Strategy 2014/15 had been approved by the Pension Fund Committee on 22 May 2014.

The Funding Strategy Statement had been approved by the Pension Fund Committee on 20 February 2014 as part of the triennial valuation process.

The Risk Register included two risks ranked as red, four as amber and two as green. None of the risks had increased in category over the last year. The assessment of the highest ranked risk was primarily driven by the financial impact each could have if each risk actually occurred.

Reference was made to the report of the Independent Professional Observer, who had described the governance arrangements as being of a high standard and that the North Yorkshire Pension Fund continued to be fully compliant with all the regulatory requirements currently in force. The comments made by the Professional Observer were included as an appendix to the report and it was expected that further discussion would take place in relation to the issues that he had raised and would be reported back to the Committee in due course.

Resolved -

- (i) That the set of governance documents provided in Appendix 1 to the report be approved; and
- (ii) That the report of the Independent Professional Observer, attached as Appendix 2 to the report, be noted.

52. Statement of Final Accounts 2013/14

Considered -

The report of the Treasurer requesting Members to approve the draft Statement of Final Accounts for the financial year 2013/14.

A Member highlighted the issue of active members of the Pension Fund rising, whereas, with recent reorganisations, it would have been expected that those numbers would have been falling. In response it was stated that consideration had been given as to why this had occurred and although there were a variety of factors that could be linked to this, the major reasons for the increased numbers were auto-enrolment and people having more than one part-time post within an authority.

A Member noted the increase in expenses paid to Fund Managers and asked whether this was due to the improved performance and their performance related fees. In response it was noted that this was the case, and emphasised that their additional performance had brought significant additional value to the Fund, way ahead of what had been paid out in fees. A Member suggested that this matter should be highlighted within the Statement of Final Accounts and that their fees would not be enhanced until they went beyond the benchmark they had previously achieved. The Treasurer stated that the Statement would be altered to reflect the position outlined.

Resolved -

That, subject to the alteration highlighted above, the draft Statement of Final Accounts 2013/14 be approved for referral to the County Council's Audit Committee.

53. Fund Manager Matters

Considered -

The report of the Treasurer seeking a decision from Members on the next step of the review of the equity allocation to the Fund.

The Appendix to this report contained confidential information and the following minutes reflect that position.

The Treasurer referred to the Investment Strategy Workshops held in October 2013 and February 2014 which had considered adding a fourth Equity Manager with, potentially, alternative styles to the Fund's existing Managers.

In addition Aon Hewitt, the Fund's Investment Consultants, had produced a document summarising the position and providing four options for the way forward.

The four options put before Members were as follows:-

1. Commence a search for a new traditional global Equity Manager to complement the existing three;
2. Commence a search for a low volatility global Equity Manager to complement the existing three;
3. Pursue both options 1 and 2 to provide even greater diversification; and
4. Not to pursue an additional appointment at this time.

The confidential Appendix to the report provided greater detail in relation to the options.

Members discussed the implications of the options and the following issues and points were highlighted:-

- ◆ There was general agreement that the provision of an additional Equity Manager would provide greater flexibility for the Fund's investments.
- ◆ There was a need, if possible, to try and protect the enhanced position achieved by the North Yorkshire Pension Fund in recent years, but at the same time not remove the ability to enhance the position of the solvency of the Fund.
- ◆ The need to try and protect the advances made in recent years while reducing the volatility within the current investment strategy, through the provision of an additional equity manager, was emphasised.
- ◆ Members discussed the various equity managers that they had met, to date, in relation to the pursuit of the fourth manager and the variation in the qualities of each. They emphasised the need to ensure that the fourth equity manager, if appointed, was appropriate for the needs of the North Yorkshire Pension Fund.
- ◆ Members suggested that, at this stage, consideration should be given to the appointment of an additional equity manager, rather than the replacement of an existing manager and an additional manager.
- ◆ Members considered that with alterations to the options provided, options 2 and 3 were the most appropriate for determining the appointment of an additional equity manager.
- ◆ The process for an appointment was set out by the Treasurer, as follows:
 - Treasurer/Pension Fund Officers/Investment Consultants to establish long list of potential fourth equity manager
 - Sub-Group of Pension Fund Committee to determine shortlist of potential fourth equity manager
 - Report to September meeting of Pension Fund Committee on progress being made and decision to go ahead with procurement process
 - if agreed, full procurement process to take place in October 2014, involving Sub-Group, to appoint a fourth equity manager.
- ◆ It was suggested that a clear choice of the options provided would assist in giving officers, initially, and the Sub-Group, ultimately, a clear steer on what would be required of a fourth equity manager.
- ◆ A Member suggested that, should it be discovered during the process that one of the potential equity managers brought greater benefits than one of the existing equity managers, then consideration should be given to whether to replace that equity manager. It was noted that this would be included in the process, however, it was emphasised that there was a continuous process taking place to ensure that the most effective fund managers were operating for the North Yorkshire Pension Fund.

Resolved -

- (i) That the following be undertaken as a way forward for the process:-

Option 2 be altered to read; “Commence a search for a lower volatility global equity manager to complement the existing three”, and, subject to that, Option 3 be undertaken as a way forward - to pursue both options 1 and 2 to provide even greater diversification.

- (ii) The panel of Members to participate in the selection process(es) to be established from the following:-

County Councillors John Blackie, Roger Harrison-Topham, Patrick Mulligan, Helen Swiers and John Weighell.

- (iii) That the long list be developed under the guidance of the Investment Consultants and their recommendations be adhered to, subject to agreement by the selection panel.

The meeting concluded at 11.15 am.

SL/JR