

## North Yorkshire County Council

### Pension Fund Committee

Minutes of the meeting held on 26 February 2015 at County Hall, Northallerton commencing at 10.30 am.

**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)

Apologies were received from County Councillor Sam Cross.

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**Copies of all documents considered are in the Minute Book**

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

**71. Exclusion of the Public and Press**

**Resolved -**

That the public and press be excluded from the meeting during consideration of Minute No. 78 - Equity Investment - on the grounds that it involves the likely disclosure of exempt information as defined by 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.

**72. Minutes**

In reference to the previous Minutes a Member noted that the names of Members had been attributed to comments within those, and noted that this had not been the case in previous Minutes. He considered it appropriate that comments were not attributed to individual Members of the Committee within the Minutes.

A Member noted that reference was made to the discussion of an item relating to the transfer of funding from the North Yorkshire Pension Fund to the Greater Manchester Pension Fund in relation to the Probation Service and having been discussed at the previous meeting. He noted that the matter was not raised within the Minutes and could not recall whether the issue had been discussed. The Treasurer stated that the issue may have been raised within a report to the previous meeting, but was not necessarily the subject of a discussion at that meeting. The Treasurer stated he would investigate the matter and if appropriate, would suggest an amendment to the previous Minutes.

## **Resolved -**

That the Minutes of the meeting held on 21 November 2014, having been printed and circulated, and subject to the removal of the names of Members to which comments had been attributed, be taken as read and be confirmed and signed by the Chairman as a correct record.

### **73. Public Questions or Statements**

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

### **74. Member and Employer Issues**

Considered -

The report of the Treasurer providing Members with information relating to membership movements, performance and costs of benefits administration as well as related events and activity over the year to date as follows:-

- (a) Admission Agreements.
- (b) TPR Code of Practice.
- (c) Membership Analysis.
- (d) Member Training.
- (e) Meetings Timetable.

The Treasurer noted that following the departure of the Pensions Manager to alternative employment, a restructure of the Pensions Administration Section had taken place to enable the service to continue without disruption. He introduced Anna Binks who would be acting up to the role of Pensions Manager for the foreseeable future. A review of how the administration team was operating, following the restructure, would be undertaken in around six months' time to determine whether the new arrangements were working effectively.

The Treasurer noted that, in terms of admission agreements, approval was being sought by City of York Council to a Community Admission Agreement allowing continued access to the Pension Scheme of staff working in certain areas of economic development, tourism and promotion of cultural activities which came together under a new organisation to be known as "Make it York". Full details were provided in an Appendix to the report.

The Treasurer provided details of the Pension Regulator Code of Practice 2015 which provided a summary of key governance and administrative duties, together with the standards of conduct and practice expected in relation to those duties.

In terms of membership analysis further consideration was being given to the details behind why active membership was continuing to increase and those details would be provided to Members at a later meeting.

In terms of Member training a Member noted that he was no longer able to attend the conference he was highlighted to attend in Cheshire and therefore asked for the report to be amended accordingly. The Treasurer acknowledged this matter.

## **Resolved -**

- (i) That the report be noted.
- (ii) That the request to approve the creation of a Community Admission Agreement for "Make it York" be approved.

## **75. Establishment of a Pension Board**

Considered -

The report of the Treasurer updating Members on the establishment of the Pension Board.

The Treasurer noted that the meeting of the full County Council on 18 February 2015 agreed to the establishment of the Pension Board and endorsed the Terms of Reference for that body.

Arrangements were now underway for the recruitment and training of Pension Board Members. A County Councillor representative was appointed at the County Council meeting and an appropriate recruitment process was underway for the other positions, including that of Independent Chairman to the Board.

It was expected that the Pension Board would be fully operational by the end of July 2015.

A Member sought clarification as to how the Pension Board would operate in terms of budgetary constraints in relation to support for that. The Treasurer acknowledged the issue raised by the Member and stated that the arrangements for the delivery of the Pension Board would be drawn up with suitable constraints in terms of finance and resources.

**Resolved -**

That the report be noted.

## **76. Budget/Statistics**

Considered -

The report of the Treasurer highlighting the following:-

- (a) The income/expenditure and position to date for 2014/15.
- (b) The cash deployment of the Fund.
- (c) The proposed 2015/16 budget.

The Treasurer highlighted how the cash surplus for the nine months up to 31 December 2014 was less than forecast by £2.9m. This was due to expenditure for the period marginally exceeding the forecast by £0.4m while income was lower than anticipated by £2.5m.

The report also highlighted the following:-

- ◆ Net transfer expenditure to December 2014.
- ◆ Contributions income.
- ◆ Early retirement recharge income.

- ◆ Employer and employee contribution income.
- ◆ The cost of benefits paid to the end of December 2014.

Details of the cash deployment in 2014/15 were provided and a cash shortfall was anticipated in each of the remaining two quarters, due to the reasons set out in the report, which would be met by income from investments as required.

The proposed 2015/16 budget was provided as an Appendix to the report.

Members discussed the report and the following issues were raised:-

- ◆ Officers stated that the cash-flow issue was not of significant concern.
- ◆ Transfer out balances could be significantly affected if a large number of staff on higher salaries with a significant number of years' service were to leave at the same time, however, this was unlikely. Transfer in/transfer out of the Fund, in the main, provided a balanced position.
- ◆ A Member questioned at what stage the Committee would expect to become involved in terms of making the decision to transfer funds for rebalancing, rather than this being under officer delegation. He emphasised he had every confidence in the officers making these decisions, and did not contest the rebalances that had been undertaken, but asked for clarification as to where the matter would be referred for a decision by the Pension Fund Committee. In response clarification was provided as to the position in relation to the particular large rebalancing exercises undertaken and why these had been done in that way. The Treasurer noted that Members of the Committee had agreed to delegate such matters to officers around 12 months ago and there was no threshold set in terms of a rebalancing exercise, where this was necessary for the day to day management of the Fund. The Treasurer noted that issues would be discussed with the Chairman and Vice-Chairman and, where felt appropriate, matters would be brought to the Committee, for a decision to be made, however, he re-emphasised that the day to day running of the Fund required matters to be delegated to officers in such instances. The Member who raised the issue acknowledged the response provided.
- ◆ Clarification was provided as to the effect of Councillors who had previously been Members of the Pension Scheme now having to leave the Scheme and it was noted that this would have a minimal effect on the overall Fund. A Member emphasised that denying Councillors the chance to be part of the Scheme did not encourage younger people to take up the position as a local councillor.

**Resolved -**

- (i) That the report be noted.
- (ii) That the 2015/16 budget be approved.

**77. Performance of the Fund's Portfolio for the Quarter ending 31 December 2014**

Considered -

The report of the Treasurer on the investment performance of the overall Fund, and of the individual Fund Managers, for the quarter to 31 December 2014.

The report highlighted the following issues:-

- ◆ The performance of the Fund.
- ◆ Fund Manager performance.
- ◆ Risk indicators.
- ◆ Solvency.
- ◆ Rebalancing.
- ◆ Proxy voting.

The Investment Adviser and Investment Consultant provided separate reports and Members undertook a detailed discussion with them and the Treasurer, with the following issues being highlighted:-

- ◆ Out-performance in the quarter, together with the level of out-performance over the year had been good.
- ◆ Fund Managers had been fairly similar in their performance with none of them significantly good or bad.
- ◆ Further consideration should be given to reviewing investments in bonds, and in the property markets, and the strategies in relation to those undertaken by the Fund.
- ◆ There had been a mixed performance in terms of the DGFs, however, it would not be possible to fully assess their value to the Fund until there was a significant fall in the markets.
- ◆ The Greek position in Europe was not as detrimental to European financial markets as it was initially thought it could be, with many European countries more concerned about their internal political issues.
- ◆ It was considered that a period of financial stability in Europe over the next couple of years was being pursued rather than attempts to seek significant economic growth.
- ◆ There had been no material effect on the Fund from the Swiss currency capping issue.
- ◆ A cautious view of the equity markets was expressed as it was suggested that they could not continue to rise as they had done recently.
- ◆ It was unlikely that underlying inflation in the UK would drop below 0%.
- ◆ Wage growth was starting to appear in the UK and the United States, which was having a positive impact on economic growth.
- ◆ It was difficult to predict, at this stage, whether interest rates would go up in the very near future and much depended upon the result of the forthcoming General Election.
- ◆ Members noted the difference in opinion in some respects between the Investment Adviser and Investment Consultant, in interpreting the

performance of Amundi and Fidelity. Each explained why those conclusions had been reached and why they differed. The Investment Consultant suggested that in future it would provide a commentary alongside some of the house opinions provided in their report, to provide Members with additional context to explain their views on managers and investments. Members welcomed the difference of opinion as they considered that this brought additional challenge to the debate.

- ◆ It was suggested that further consideration should be given to the role the investment with ECM plays in the Fund and how this fits with the rest of the portfolio. The pros and cons of that investment were discussed and it was noted that this would be one of the matters to be considered at a forthcoming Members' Workshop.
- ◆ Members were requested to consider an appropriate date for a workshop to be held on bond investments. It was suggested that the workshop be arranged to take place following the next meeting of the Pension Fund Committee, being held on 21 May 2015.
- ◆ The Treasurer highlighted a possible investment into property, with an opportunity arising to acquire additional units in one of the property funds. He stated that the matter had been discussed with the Chairman and Vice-Chairman of the Committee outside of the meeting including whether to pursue it. It was noted that this investment would be pursued. Such opportunities usually appeared at short notice, however, whenever possible the Committee would be advised subject to the timing being right. Both the Investment Adviser and the Investment Consultant were of the opinion that the opportunity to acquire these additional units was an opportunity with limited risk and suggested that this could be agreed by the Committee at this meeting.
- ◆ The Investment Adviser suggested that a longer term strategy and plan for the property portfolio should be considered by Members, possibly through a series of workshops. She provided brief details as to what she considered would be an appropriate strategy and Members considered it appropriate for this to be discussed, at length, in a workshop to be arranged.

#### **Resolved -**

- (i) That the investment performance of the Fund for the quarter ending 31 December 2014 be noted.
- (ii) That arrangements be made for an investment workshop on bonds to be held following the Pension Fund Committee meeting on 21 May 2015, and the Treasurer would confirm details of the workshop with Members in due course.
- (iii) That a workshop be arranged to discuss the long term strategy and plan for the property portfolio.
- (iv) That the investment opportunity to acquire units in a property fund be pursued.

#### **78. Equity Investments**

Considered -

The report of the Treasurer requesting Members to consider the allocations to the new Equity Managers, how the mandates should be funded, and which Managers should be available as reserve Managers.

The report contained exempt information and the following Minutes reflect that position.

Members discussed the selection process undertaken by a Panel to nominate a Lower Volatility Global Equity Manager and/or a Traditional Global Equity Manager, representing a good fit with the existing three.

Details of the conclusion of the Panel were outlined together with details of other Equity Managers that had been interviewed as part of the process.

Discussions took place on how the funding would be allocated from existing investments to the appointed Managers and also the level of those investments.

**Resolved -**

- (i) It was agreed that Harris Associates are to be retained as a reserve Manager.
- (ii) The initial allocations to Veritas and Dodge and Cox will be approximately £112.5m each, being 10% of the Fund in total.
- (iii) That the mandates at (ii), above, are funded from a disinvestment of £168m from Fidelity and £57m from Standard Life.

The meeting concluded at 11.40 am.

SL/JR