

## North Yorkshire County Council

### Pension Fund Committee

Minutes of the meeting held on 26 November 2015 at County Hall, Northallerton commencing at 10.00 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.

David Portlock - Chair of the Pension Board.

There were three members of the public present.

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

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#### **Declarations of Interest**

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

#### **97. Exclusion of the Public and Press**

**Resolved -**

That the public and press be excluded from the meeting during consideration of Minute No. 106, on the grounds that it involved the 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.

#### **98. Minutes**

**Resolved -**

That the Minutes of the meeting held on 17 September 2015, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

#### **99. Public Questions or Statements**

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

## **100. Fund Advisory and Consultancy Services**

Representatives of the Fund's Investment Consultancy - AON Hewitt and the Fund's Independent Adviser - Carolan Dobson, left the meeting during consideration of this item.

Considered -

The report of the Treasurer updating Members on procurement arrangements for the North Yorkshire Pension Fund's Independent Adviser and Consultant Contracts.

The Treasurer explained the report related to the contracts for both the Investment Consultancy and the Independent Adviser coming to an end in March and May 2016, respectively. He noted that Members had been approached to determine their satisfaction with the services provided, whether the present arrangements should continue and whether there was scope to amend the contracts, going forward.

Details of the responses from Members were outlined. It was considered that, overall, Members were supportive of both the Investment Consultant's and the Independent Adviser's contribution to the Pension Fund. Members were particularly satisfied with how the two different views were submitted into meetings and often provided challenge to each other's views. It was suggested that Members would like this to continue.

Members discussed the report and the following issues and points were highlighted:-

- ◆ Future, potential pooling arrangements could have an impact on whether it was felt justified to have both an adviser and consultant, however, it was considered that as the pooling arrangements could take a number of years to be developed, that it was appropriate to continue with the current arrangements as it provided a good balance of advice.
- ◆ Clarification was provided of the roles played by the representatives that attended Pension Fund Committee meetings on behalf of the consultants.
- ◆ Due process would be followed in terms of a procurement process for the positions to ensure value for money was being obtained in respect of the arrangements for the Fund's Independent Adviser and Consultant contracts.
- ◆ Members discussed the nature of the procurement process and the level of their involvement in that. A number of suggestions were put forward as to how the process should be developed and how Members of the Committee could be involved. Members were minded to undertake a light touch approach to the process with Chairman/Vice-Chairman, Treasurer and Pension Fund Officers being involved in the long listing, shortlisting and interview processes, with other Members involved in an informal discussion on those chosen to be interviewed. Another Member suggested that the process should involve a formal interview panel throughout the process with four/five Members from the Committee involved throughout that process.

**Resolved -**

- (i) That a procurement process be undertaken in respect of the contracts for the Independent Adviser and the Investment Consultant to the North Yorkshire Pension Fund.
- (ii) That the process be undertaken as follows:-

The Chairman/Vice-Chairman/Treasurer/Pension Fund Officers, who will make up the Selection Panel, undertake the evaluation of the written submissions from the candidates.

An informal discussion between Members of the Pension Fund Committee and the shortlisted candidates take place, to identify any specific issues that Members would like the Selection Panel to probe in detail.

The Selection Panel will then interview the candidates and complete the formal evaluation, before making the decision on who to appoint.

County Councillor John Blackie asked for his vote to be recorded as against resolution (ii), as outlined above.

## **101. 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 and academies.
- (b) Annual allowance.
- (c) Administration performance.
- (d) Membership analysis.
- (e) CIPFA benchmarking return 2014/15.
- (f) End of contracting out.
- (g) Member training.
- (h) Meetings timetable.

In discussion of the report Members raised the following issues and points:-

- ◆ A Member noted the issue regarding the end of contracting out in terms of Local Government Pension Scheme Members, with them having to pay full contributions of National Insurance from April 2016. Details of how Local Government Pension Scheme Members would be affected by this were outlined to the meeting and it was noted that it was unlikely that LGPS members would receive the full value of the new single tier state pension due to the fact they had not paid the full rate of NI contributions during their period of membership of the LGPS previously.

A Member noted that employers would also be facing a much larger bill in terms of National Insurance in view of this and it was noted that the County Council had built this sum into their budget going forward.

- ◆ Issues relating to the challenge currently facing the Pensions Administration in terms of providing information, in view of the complexities of trying to provide data, with the old system of the Local Government Pension Scheme running parallel to the new system. It was noted that this had led to some delays in providing data to Members. It was noted that this was an issue

affecting all Local Government Pension Scheme Pension Funds. It was noted that the Pensions Regulator was sympathetic to the position in view of the overall difficulties being faced by all LGPS Funds, however, the service would update the Pensions Regulator where appropriate.

It was clarified with Members that the delays outlined did not relate to cash being paid from employers to the Pension Fund, but related wholly to delays in information being provided in relation to the Annual Benefit Statements.

- ◆ It was noted that the meetings timetable within the report (Appendix 6) indicated dates of 21 September 2016 for a Pension Fund Committee and 22 September 2016 for an Investment Manager meeting, whereas these dates should in fact read Pension Fund Committee - 15 September 2016 at 10 am and Investment Manager meeting - 16 September 2016 at 10 am.

**Resolved -**

That the report be noted and changes to the meeting dates as indicated above be agreed.

**102. Budget/Statistics**

Considered -

The report of the Treasurer reporting on:-

- (a) The expenditure/income position to date for 2015/16.
- (b) The cash deployment of the Fund.

The Treasurer highlighted how the cash surplus for the quarter to 30 September 2015 was slightly higher than the forecast by £1m. He noted there had been only slight variances in terms of the original budget and that the budget was on target for the end of the year.

He highlighted details of the cash rebalancing that had taken place in terms of the various transfers to and from Fund Managers.

A Member noted that Councillors would have to withdraw from the LGPS when next due for re-election and wondered what impacts that would have on the budget. In response it was stated that this issue would be picked up at that time.

**Resolved -**

That the report be noted.

**103. Pension Board**

The Chairman of the Pension Board, David Portlock, gave a verbal update on the work of the Pension Board in respect of what had taken place at its most recent meeting, on 1 October 2015, and the Work Plan going forward. He highlighted the following:-

- ◆ The Assistant Chief Executive (Legal and Democratic Services) attended the meeting to clarify positions in relation to the remit of the Committee and the appointment of employee representatives.

- ◆ The training programme for the Pension Board Members was set out at the meeting and a number of Members had commenced with the required training.
- ◆ A draft Work Plan had been presented to the Board and it was hoped to get final agreement to this at the next meeting in January 2016.
- ◆ The North Yorkshire Pension Fund's Independent Professional Observer, Peter Scales, would give a presentation to the Pension Board at its next meeting, with a view to giving guidance on how it could operate, going forward.

Following the verbal update by the Chair of the Pension Board, the following issues and points were raised:-

- ◆ A Member asked whether the Work Plan for the Pension Board could be circulated to Members of the Pension Fund Committee, subject to the discussion of this at the Pension Board in January 2016. Clarification was provided as to how the Work Plan had been put together in terms of guidance from Government and compliance matters. It was noted that some of the pieces of work would be on a bigger scale than others and the Pension Board would need to determine the scope for those issues and may delegate to sub groups to take these forward. It was emphasised that the Work Plan was being developed into a workable document which would establish a sensible programme of activity to facilitate effective operation of the Pension Board.
- ◆ Clarification was sought by a Member of the Committee as to how the Pension Board would interact with the Pension Fund Committee. In response the Chairman of the Pension Board stated that the Pension Board would not be a Scrutiny or Audit Committee of the Pension Fund Committee and had a specific role on governance and related issues, where it would work alongside the Pension Fund Committee to assist. This was supported by other Members of the Pension Board, who were in attendance to observe the Pension Fund Committee, and emphasised that their role was to support and assist rather than to be confrontational.
- ◆ A Member asked about the budgetary arrangements for the support for the Pension Board and whether that could be identified separately within the reports to the Pension Fund Committee. In response it was noted that the costs for the administration of the Board were relatively small (around £10,000-£20,000 per year) and could be identified separately to the arrangements for the Pension Fund Committee. The Chairman of the Pension Board noted that the costs of operating the Board were identified within the establishment arrangements for that body, which was a relatively small amount, and it would be ensured that the Board was as cost effective and efficient as possible.
- ◆ It was clarified that the Pension Board was introduced as part of a national initiative developed by the Government to ensure that appropriate governance was taking place in respect of all public sector Pension Funds, not just those which are a part of the LGPS.
- ◆ A Member considered that the administration costs per member of the North Yorkshire Pension Fund were extremely low in relation to other administrative set-ups throughout the country and raised concerns regarding any moves to amalgamate these arrangements with other Funds. In response to this issue the Chairman noted that there were no plans to change the administrative

arrangements, however, in contrast, the way in which investments were undertaken would inevitably change as a result of the Governments expressed intention to pool LGPS assets.

- ◆ Members considered that generally, the Pension Board working alongside the Pension Fund Committee would be a positive move and would assist them. A strong Pension Board would be an asset to the governance arrangements for the Pension Fund.
- ◆ Members noted the training arrangements for Pension Board Members.

**Resolved -**

That the report be noted.

**104. Performance of the Fund's Portfolio**

Considered -

The report of the Treasurer providing details of the investment performance of the overall Fund and of the individual Fund Managers for the quarter to 30 September 2015.

The report highlighted the following issues:-

- ◆ The performance of the Fund.
- ◆ Individual Fund Manager's performance.
- ◆ Risk indicators.
- ◆ Solvency position.
- ◆ Rebalancing.
- ◆ Proxy voting.

The Investment Adviser and Investment Consultants had provided separate reports. Members undertook a detailed discussion with both the Investment Adviser and the Investment Consultants, and the Treasurer, in relation to their reports, with the following issues being highlighted:-

- ◆ The differing performance of the various Fund Managers.
- ◆ An update on the current world economic situation and how that was affecting markets.
- ◆ The impact of the Chinese market which was developing into a mature economy rather than an emerging one.
- ◆ The continued unpredictability of the market with volatility likely to remain high for the foreseeable future.
- ◆ The continued good performance of the key Fund Managers for the North Yorkshire Pension Fund.

- ◆ Potential changes in interest rates and their effect on investment performance.
- ◆ The performance of Standard Life and the conflicting views of the Investment Adviser and the Investment Consultants. It was suggested that the issues raised by Members could be put directly to representatives of Standard Life at their meeting with them on 27 November 2015.
- ◆ Issues relating to the possible interest rate rise in the US, the effect on the equities market, the continuing effect of quantitative easing, and opportunities for wage growth.
- ◆ A Member asked for details of the current activities of PIRC. It was stated that the latest reports would be provided.
- ◆ Issues relating to the Dodge & Cox portfolio.
- ◆ Issues relating to the Newton portfolio.
- ◆ It was noted that in relation to Dodge & Cox this had been their first performance report and comments from Members would be submitted to them with a view to providing additional information at the next meeting of the Committee.

**Resolved -**

That the investment performance of the Fund for the quarter ending 30 September 2015 be noted.

**105. LGPS Pooling Arrangements**

Considered -

The report of the Treasurer updating Members on progress towards the Government's goal of pooling assets of LGPS Funds.

The report gave details of a letter from the Local Government Association clarifying issues in relation to the announcement by the Government on pooling investments in the Local Government Pension Scheme. It was noted that, although this move by the Government was described as a consultation it was expected that LGPS Funds would already be examining potential collaboration opportunities in respect of this so that significant will be made by the consultation deadline of 19 February 2016.

Details of how the North Yorkshire Pension Fund was addressing this matter were provided by the Treasurer and it was noted that discussions had taken place with several collaboration opportunities.

The Fund's Investment Adviser and Investment Consultants provided background details as to how the position was developing nationally and the reasons behind the potential collaborations.

- ◆ Members of the Committee raised concerns that decisions from this point, on the investment portfolio, could be affected by these proposals, particularly should the Committee wish to alter its asset allocation. In response the Treasurer emphasised that the proposals allow for the Committee to continue to determine the investment strategy for the North Yorkshire Pension Fund.

In addition, he emphasised that the pooling arrangements may provide opportunities to enhance the overall performance of the portfolio.

- ◆ It was noted that the collaborations would not be constrained by geographical preferences.
- ◆ The Treasurer stated that he would keep Members' updated on this matter and should any issue occur that required the immediate attention of Members he would either contact them or convene a meeting in respect of this.

**Resolved -**

That the report be noted.

**106. Bond Strategy Review**

Members of the Pension Board, observing the meeting, were invited to remain in the meeting, despite the report being subject to the exclusion of the public and press as detailed in Minute No. 91, as it was considered appropriate information for their work going forward.

**Due to the meeting entering into closed session the following Minutes are a reflection of the confidential nature of the report and the ensuing discussion.**

**Considered -**

The report of the Treasurer updating Members on the progress of the Bond Strategy Review and seeking a decision from Members on an investment in illiquid credit.

- ◆ Both the Investment Adviser and Investment Consultants provided details related to the way forward in terms of the Committee's Bond Strategy Review, in pursuing a direct lending investment as the most appropriate initial investment into illiquid credit. A paper was provided giving details of how that investment could be progressed.
- ◆ The report provided details in relation to the following:-
  - the bond allocation within the Fund
  - the current bond structure and target weight going forward
  - a recap of the bond workshops and asset classes considered to date
  - initial action - launch a direct lending procurement exercise
  - future direction – consideration of adding more illiquid opportunities to the bond allocation.
- ◆ Consider a procurement process to enable this to be put in place.

Members discussed the implications of the report and a number of issues and points were raised as follows:-

- ◆ The implications of progressing with this procurement.
- ◆ The need to establish value for money.
- ◆ The possibility of not appointing, should an appropriate Manager not be found.



- ◆ The implications for this decision as far as the move to pooling are concerned.

**Resolved -**

- (i) That Members agreed to pursue an investment in direct lending.
- (ii) That the parameters of the procurement process, as discussed, be followed.
- (iii) That available Members of the Pension Fund Committee, in line with details to be circulated, take part in the procurement process.

**107. LGC Award**

The Chairman highlighted the recent award that had been given to the Pension Fund Committee in relation to its performance within the global equities market, from the Local Government Chronicle.

Members asked to be placed on record their congratulations to all those involved, including the members of the Pension Fund Committee, Officers, the Administration Team, the Advisers and Fund Managers, in achieving this award.

The meeting concluded at 12.30 pm.

SL/JR