

Agenda

Meeting: Pension Fund Committee

**Venue: The Grand Meeting Room, County Hall,
Northallerton, DL7 8AD**
(location plan attached)

Date: Thursday 24 November 2016 at 10.00am

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Business

- 1. Exclusion of the Public and Press** – To consider the exclusion of the public and press from the meeting during consideration of Appendices 1-5 of item 5 and Appendix 1 of item 9 on the agenda on the grounds that these involve 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
- 2. Minutes of the meeting held on 15 September 2016** (Pages 6 to 10)
- 3. Any Declarations of Interest**
- 4. Public Questions or Statements**

Members of the public may ask questions or make statements at this meeting if they have given notice (including the text of the question/statement) to Kate Arscott of Democratic Services (*contact details at the foot of page 1 of the Agenda sheet*) by midday on Monday 21 November 2016. Each speaker should limit themselves to 3 minutes on any item. Members of the public who have given notice will be invited to speak:-

- at this point in the meeting if their questions/statements relate to matters which are not otherwise on the Agenda (subject to an overall time limit of 30 minutes);
- when the relevant Agenda item is being considered if they wish to speak on a matter which is on the Agenda for this meeting.

If you are exercising your right to speak at this meeting, but do not wish to be recorded, please inform the Chairman who will instruct those taking a recording to cease while you speak.

5. **Triennial Valuation 2016 Update** – Report of the Treasurer **(Pages 11 to 19)**
6. **Member and Employer Issues** – Report of the Treasurer **(Pages 20 to 38)**
7. **Budget/Statistics** - Report of the Treasurer **(Pages 39 to 42)**
8. **Performance of the Fund’s Portfolio for the Quarter ending 30 September 2016** – Report of the Treasurer **(Pages 43 to 87)**
9. **Equity Portfolio: Strategic Currency Hedging** – Report of the Treasurer **(Pages 88 to 94)**
10. **LGPS Investment Regulations** - Report of the Treasurer **(Pages 95 to 108)**
11. **LGPS Pooling Arrangements** - Report of the Treasurer **(Pages 109 to 117)**
12. **Pension Board** – Verbal update by the Chair of the Pension Board. (The draft Minutes from the meeting held on 6 October 2016 are attached for information.) **(Pages 118 to 125)**
13. **Other business which the Chairman agrees should be considered as a matter of urgency because of special circumstances**

Barry Khan
Assistant Chief Executive (Legal and Democratic Services)
County Hall
Northallerton
16 November 2016

Notes:

Emergency Procedures for Meetings

Fire

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Persons should not re-enter the building until authorised to do so by the Fire and Rescue Service or the Emergency Co-ordinator.

An intermittent alarm indicates an emergency in nearby building. It is not necessary to evacuate the building but you should be ready for instructions from the Fire Warden.

Accident or Illness

First Aid treatment can be obtained by telephoning Extension 7575.

PENSION FUND COMMITTEE

1. Membership

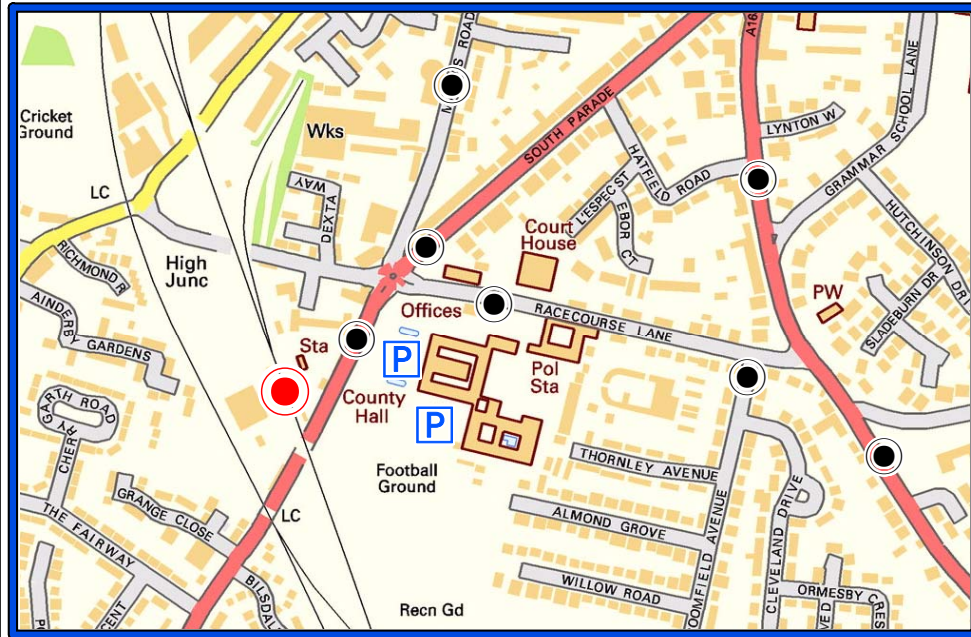
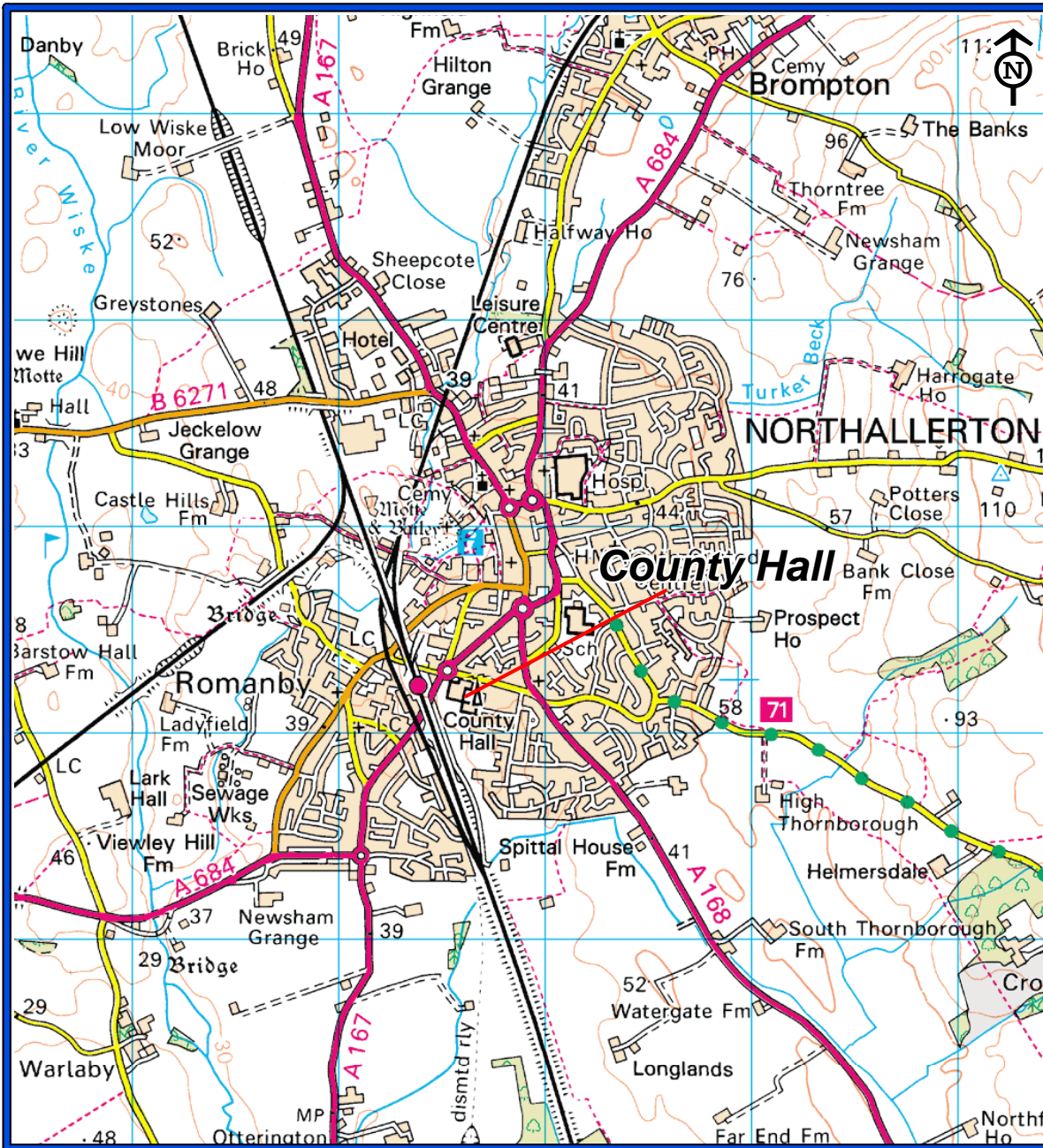
| County Councillors (8) | | | | | | | |
|--|--|--------|--------|--|-----------------------------------|-----|----------------------|
| | <i>Councillors Names</i> | | | | <i>Political Party</i> | | |
| 1 | BLACKIE, John | | | | NY Independent | | |
| 2 | BATEMAN, Bernard MBE | | | | Conservative | | |
| 3 | VACANCY | | | | UKIP | | |
| 4 | De COURCEY-BAYLEY, Margaret Ann | | | | Liberal Democrat | | |
| 5 | HARRISON-TOPHAM, Roger (Vice-Chairman) | | | | Conservative | | |
| 6 | MULLIGAN, Patrick | | | | Conservative | | |
| 7 | SWIERS, Helen | | | | Conservative | | |
| 8 | WEIGHELL, John OBE (Chairman) | | | | Conservative | | |
| Members other than County Councillors (1 and 2) Voting (3) Non-voting | | | | | | | |
| 1 | STEWARD, Chris | | | | City of York | | |
| 2 | CLARK, Jim | | | | North Yorkshire District Councils | | |
| 3 | PORTLOCK, David | | | | Chair of the Pension Board | | |
| Total Membership – (10) | | | | Quorum – (3) County Councillors | | | |
| Con | Lib Dem | NY Ind | Labour | Liberal | UKIP | Ind | Other Voting Members |
| 5 | 1 | 1 | 0 | 0 | 1 | 0 | 3 |

2. Substitute Members

| Conservative | | Liberal Democrat | |
|-----------------------|--------------------------|-------------------------|--------------------------|
| | <i>Councillors Names</i> | | <i>Councillors Names</i> |
| 1 | PATMORE, Caroline | 1 | HOULT, Bill |
| 2 | LES, Carl | 2 | |
| 3 | MACKENZIE, DON | 3 | |
| 4 | | 4 | |
| 5 | | 5 | |
| NY Independent | | | |
| | <i>Councillors Names</i> | | |
| 1 | PARSONS, Stuart | | |
| 2 | | | |
| 3 | | | |
| 4 | | | |
| 5 | | | |

1. Substitute Members

| | | |
|---|-----------------|-----------------------------------|
| 1 | MERCER, Suzie | City of York |
| 2 | PEACOCK, Yvonne | North Yorkshire District Councils |
| 3 | COWLING, Linda | North Yorkshire District Councils |



Visitor Parking
at County Hall



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Rail Station



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County Hall

Northallerton
North Yorkshire
DL7 8AD

Tel : 0845 8 72 73 74



North
Yorkshire County Council

North Yorkshire County Council

Pension Fund Committee

Minutes of the meeting held on 15 September 2016 at County Hall, Northallerton commencing at 10.00 am.

Present:-

County Councillor John Weighell OBE (in the chair); County Councillors John Blackie, Bernard Bateman MBE, Margaret-Ann de Courcey-Bayley, Roger Harrison-Topham, Patrick Mulligan and Helen Swiers.

Councillor Jim Clark – North Yorkshire District Councils.

Councillor Chris Steward - City of York Council.

David Portlock - Chair of the Pension Board.

Other representatives of the Pension Board were in attendance.

Copies of all documents considered are in the Minute Book

137. Minutes

Resolved -

That the Minutes of the meeting held on 7 July 2016, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

138. Declarations of Interest

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

139. Public Questions or Statements

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

There was an adjournment at this stage of the meeting.

140. Member and Employer Issues

Considered -

The report of the Treasurer advising of the following:- that there were no new admission agreements or new Academies during the quarter ended 30 June 2016; an analysis of the numbers of active, deferred and pensioner members in the Fund; the performance of the Pensions Administration Team; Member training; and arrangements for forthcoming Committee meetings and meetings with the Investment Managers.

Members highlighted the difference between the Actuary's numbers of the Fund's active, deferred and pensioner members and the Fund membership numbers as set out in the Treasurer's report.

Resolved -

- (a) That the report be noted.
- (b) That the Treasurer and Pensions Administration Team check the numbers of active, deferred and pensioner members of the Fund.
- (c) That Councillor Jim Clark's attendance at training held on 9 to 11 March 2016 be included in the Member Training Record.

141. Budget/Statistics

Considered -

The report of the Treasurer advising of expenditure/income for 2016/17 to date and the cash deployment of the Fund.

The Treasurer highlighted that forecasts for 2016/17 were unchanged. With regard to Cash Deployment, there was a negative cash balance as at 30 June 2016 as a result of adding to the property investment with Threadneedle. The negative cash balance would be addressed through a disinvestment from one of the Fund's Investment Managers. This would be discussed with the Investment Consultant.

Resolved -

That the report be noted.

142. Annual Report and Accounts 2015/16

Considered -

The report of the Treasurer asking the Committee to receive the 2015/16 Annual Report and approve the Statement of Investment Principles and the Governance Compliance Statement.

The Treasurer highlighted the following:-

- Various documents, which formed part of the Annual Report, had not changed or had changed only very superficially.
- Documents which had been amended included the Statement of Investment Principles and the Governance Compliance Statement. The Committee's Member Working Group had reviewed both documents on 25 August 2016. It was highlighted that the Governance Compliance Statement and Statement of Investment Principles made reference to LGPS pooling arrangements.
- The Funding Strategy Statement would be redrafted as part of the Triennial Valuation 2016 and submitted to the Committee's meeting in February 2017 for approval.
- The Fund's auditor, KPMG, had advised informally that it would give an unqualified opinion on the Annual Report. The Treasurer advised that no

material issues for the Pension Fund had arisen from the audit. However, if any such issue was to arise, Members would be informed. A few minor changes were required to the Annual Report before it was considered by the Audit Committee on 29 September 2016. The changes included the insertion of a page headed "Statement of responsibilities for the financial statements", copies of which were circulated to Pension Fund Committee Members during this meeting. This page would require sign off by the Treasurer at the Audit Committee.

- The previous auditor, Deloitte, had required a separate Letter of Representation for the Pension Fund. However, KPMG required only one letter for the whole authority including the Pension Fund.

In response to questions, officers clarified that the costs incurred in relation to the administration of the Fund were the same in two different financial years because the budget for the management of the Fund for one year was based on actual previous year costs. This figure would increase in future years due to the additional resources approved by the Pension Fund Committee for the Pension Fund.

In response to questions, the officers confirmed that the Committee had decided previously not to stock lend.

Members advised that they were satisfied that the sentence "The PFC takes the view that its overriding obligation is to act in the best financial interests of the Scheme and its beneficiaries" (page 141) accurately recorded the Committee's current policy in respect of Socially Responsible Investments.

Members highlighted that it would have been helpful if the Annual Report, in view of its size, could have been provided to them in hard copy.

Resolved -

- (a) That the Annual Report 2015/16, as set out at Appendix 1 to the Treasurer's report, be noted.
- (b) That the updated Statement of Investment Principles and Governance Compliance Statement, as appended to the report, be approved.

143. Pension Board

Considered -

The draft Minutes of the meeting of the Pension Board held on 14 July 2016. The Chair of the Pension Board (David Portlock) highlighted two issues, both relating to LGPS pooling, namely:-

- There was disappointment that the Board had not had opportunity to review the 15 July 2016 submission relating to the BCPP Pool to which North Yorkshire Pension Fund agreed, in principle, to join. However, the Board had acknowledged that the Pension Fund Committee had considered the submission at its meeting the previous week and it was a question of timing and opportunity.
- The Board awaited, with interest, the response from the Government regarding North Yorkshire Pension Fund's submission. The Board will be particularly concerned to understand and comment on the Governance arrangements relating to the BCPP Pool.

In view of the imminent Party Conference Season during which Parliament will be in recess, a response from Government is not expected until October.

A Committee Member advised that, at a recent national Pensions conference, members of some pension boards had expressed the view that they felt that they were being “squeezed out” by the LGPS pooling arrangements and questioned whether pension boards would have relevance under the new arrangements. David Portlock advised that the message he had received during a recent CIPFA Pension Board’s conference from civil servants was that 90% of the current responsibilities of pension fund committees would continue and that pension boards would therefore continue to offer advice to administering authorities regarding governance and administration. Members expressed the opinion that pension fund committees would retain much less than 90% of their responsibilities under pooling arrangements.

Resolved -

That the report be noted.

144. Performance of the Fund’s Portfolio for the Quarter ended 30 June 2016

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 ended 30 June 2016; risk indicators; the solvency position; re-balancing; and proxy voting on behalf of NYPF during the period April to June 2016.

Geoff Dalton and Rob Shepherd from Aon Hewitt Ltd circulated and presented a separate report concerning the impact and implications of Brexit. The headlines from the Executive Summary were as follows:-

- The Fund had been reasonably well protected against the impact of Brexit.
- Equities were slightly underweight against target.
- Sterling had depreciated post Brexit which had benefitted the Fund’s overseas investments.
- Interest rates had fallen significantly which had materially increased the liability values on the 2013 valuation basis.
- In summary, the outlook for equities was weaker with low yields for bonds. Volatility was a concern.

Resolved -

That the investment performance of the Fund for the quarter ended 30 June 2016 be noted.

145. LGPS Pooling Arrangements

Considered -

The report of the Treasurer providing an update on the progress towards the Government’s announced intention to pool the assets of LGPS funds.

It was reported that the Officer Operations Group had met three times since 15 July 2016 to discuss the practicalities of options for putting pooling arrangements in place. Progress had been limited, pending receipt of the Government’s response. That response was required before much further work could be done and significant

expenditure incurred. The Members' Steering Group had not met since 15 July 2016 and was next due to meet on 29 and 30 September 2016.

County Councillors John Weighell OBE and Roger Harrison-Topham, together with Gary Fielding (Corporate Director – Strategic Resources), advised of recent discussions and meetings they had each had regarding LGPS pooling. County Councillor John Weighell OBE advised that he would be attending the Members' Steering Group meeting on 29 and 30 September 2016.

Resolved -

That the report be noted.

146. Private Debt Manager Appointment

Considered -

The report of the Treasurer concerning the possible appointment of a Private Debt manager and setting out a recommendation for the appointment of two managers.

County Councillors Roger Harrison-Topham and John Blackie proposed and seconded the recommendations set out in the report. County Councillor John Blackie emphasised that he had been hugely impressed by the amount of due diligence undertaken by the Managers. Gary Fielding (Corporate Director – Strategic Resources) provided a reassurance that both County Councillors Roger Harrison-Topham and John Blackie had been present throughout the full interview process. Options for funding an investment into the Private Debt asset class were discussed and the view supported that the full amount should be found by disinvesting in ECM in view of performance.

Resolved -

- (a) That an investment of 5% of the Fund be made into the Private Debt asset class, split equally between Permira and Bluebay.
- (b) That 5% of the Fund be disinvested from ECM to facilitate the investment at (a) of this Resolution.

At the close of the meeting, the Corporate Director – Strategic Resources undertook to circulate, to Pension Fund Committee Members, an Internal Audit report that will be provided to the Pension Board at their next meeting.

The meeting concluded at 1.20 pm.

RAG/JR

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

24 NOVEMBER 2016

TRIENNIAL VALUATION 2016 UPDATE

Report of the Treasurer

Appendices 1-5 contain 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.

1.0 PURPOSE OF REPORT

1.1 To update Members on progress towards the 2016 Triennial Valuation.

2.0 PROGRESS TO DATE

2.1 The Fund Actuary has attended three meetings at County Hall, Northallerton to present the results of the 2016 Triennial Valuation.

2.2 The first was at the PFC meeting on 26 February 2016 to discuss the proposed approach to the Valuation, and the second was at the PFC meeting on 15 September 2016 when Members considered the provisional Valuation results at Fund level and discussed the assumptions the Actuary planned to adopt.

2.3 The third meeting on 11 November 2016 was attended by 20 representatives of the Fund's employing bodies, and again set out the provisional Fund level results including the impact of the revised assumptions agreed with the Committee.

3.0 2016 TRIENNIAL VALUATION RESULTS

3.1 This is the first time that our current Actuary (Aon Hewitt) has carried out the Triennial Valuation for NYPF. This has resulted in a change in approach between this Valuation and the 2013 Valuation undertaken by Mercer.

Appendix 1 describes the discount rate approach taken by Aon which is now linked to the probability of funding success.

3.2 **Appendix 2** summarises the key assumptions used in the 2013 and 2016 Valuations. Discount rates have decreased in the 2016 Valuation from those used in the 2013 Valuation, which has had the effect of significantly increasing liability values. The discount rate and probability of funding success are linked. The lower the discount rate, the lower the probability of

funding success. 75% is near the mid-point for Aon's LGPS clients. This equates to a discount rate for scheduled bodies of 4.4%.

- 3.3 To remind Members, orphan bodies are employers with admission agreements and are able to close the scheme to new entrants or in certain circumstances to close it altogether, thereby ending their participation in NYPF. Should this happen, an exit payment would be very likely due. Use of a lower orphan body discount rate goes some way to anticipating this by setting contribution requirements in between those required on an ongoing funding basis and an exit basis.
- 3.4 **Appendix 3** shows the Fund level results for the 2013 and 2016 Valuations (these results have been refined since the last presentation to the Committee in September 2016 after firming up assumptions used). The funding level has increased from 73% in 2013 to 88% and the deficit has decreased from £668m to £320m. A significant part of the changes in funding level and deficit result from the differing approaches taken by the current and former actuaries in calculating liability values.
- 3.5 **Appendix 4** shows the factors affecting the deficit in cash terms over the valuation period. The major factors are:
- the interest on shortfall of -£101m, which represents the value of future liabilities as at 31 March 2013 which were discounted back to that date for the previous Valuation, discounted back to 31 March 2016 instead
 - the investment profit of +£262m, being the outperformance of the Fund's assets above the target set by the Actuary at the 2013 Valuation
 - the change in the valuation approach of +£351m, compared to the approach taken by the former Actuary
 - the change in market conditions of -£301m being primarily the fall in the discount rate
- 3.6 **Appendix 5** shows what the results mean in terms of changes to the primary contribution rate and deficit payments in cash terms. The primary contribution rate has increased from 13.8% to 18.3% at a Fund level, and the deficit requirement has fallen by approximately £12m per annum. This reflects the different approach Aon takes compared to Mercer. Aon use a single set of assumptions for past and future service, which increases the prudence in calculating the value of newly accruing benefits and decreases it for past service.

4.0 NEXT STEPS

- 4.1 Employers will receive their individual results by the end of November 2016 which will include an explanation of the key differences since the last Valuation and any flexibility options available.
- 4.2 There will then be a 6 week consultation period for employers to negotiate on their results. During this period, employers will be able to request additional information from the Actuary before determining their preferred position for the three financial years commencing April 2017.
- 4.3 Flexibility available to employers on their results is allowed for the purposes of ensuring employer affordability and reducing of deficits as quickly as possible. The flexibility offered to employers will include the following:
- phasing of increases in contribution rates over multiple years
 - the ability to pay lump sums to reduce deficit recovery periods
 - the setting up of potential guarantors

Not all flexibility options will be available to all employers. The strength of covenant for each employer will be a significant factor. For example, local authorities will be offered the greatest flexibility, companies with no guarantor or bond and closed to new members the least.

In principle, no reduction in employer contribution relative to that paid in 2016/17 will be permitted for employers with a deficit. It is also important to recognise that despite the flexibilities described above, most employers will still see an increase in their contribution requirements.

- 4.5 The consultation period with employers will finish on 13 January 2017, after which each employer will be informed of the primary contribution rate and deficit requirements for the period April 2017 to March 2020.
- 4.6 Once all the employer positions are established the Actuary will produce the formal 2016 Triennial Valuation Report which will be presented to the Committee on 23 February 2017.

5.0 FUNDING STRATEGY STATEMENT

- 5.1 The Funding Strategy Statement (FSS) will need to be revised to reflect the approach taken in the 2016 Valuation. A draft is currently being prepared and will be included in the documentation sent to employers (referred to in **paragraph 4.1**) who will be asked for comments.
- 5.2 The finalised FSS will then be submitted to the Committee on the 23 February 2017 for approval alongside the formal acceptance of the results of the Triennial Valuation 2016.

6.0 **RECOMMENDATION**

6.1 Members to note the contents of this report.

GARY FIELDING
Treasurer
Central Services
County Hall
Northallerton

10 November 2016

Background documents: None

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

24 November 2016

MEMBER AND EMPLOYER ISSUES

Report of the Treasurer

1.0 PURPOSE OF THE REPORT

1.1 To provide Members with information relating to membership movements, performance of benefits administration as well as related events and activity over the year to date as follows;

- | | |
|---|-----------------|
| (a) Admission Agreements and Academies | (see section 2) |
| (b) Membership Analysis | (see section 3) |
| (c) Administration Performance | (see section 4) |
| (d) CIPFA Benchmarking Results 2015/16 | (see section 5) |
| (f) Updated Policy Documents | (see section 6) |
| (e) Annual Allowance Exercise for 2015/16 | (see section 7) |
| (e) Member Training | (see section 8) |
| (f) Meetings Timetable | (see section 9) |

2.0 Admission Agreements and New Academies

2.1 The latest position on new Admission Agreements is described in the table at **Appendix 1**. There are no specific issues requiring the attention of the Committee.

2.2 The list of schools known to have converted to academy status during 2016/17 is also included in **Appendix 1**.

3.0 Membership Analysis

3.1 The membership movement figures for the first half of 2016/17 are as follows:

| Membership Category | At 31/03/15 | +/- Change (%) | At 31/03/16 | +/- Change (%) | At 30/09/16 |
|----------------------------|--------------------|-----------------------|--------------------|-----------------------|--------------------|
| Actives | 34,990 | -3.4 | 33,796 | -2.4% | 32,985 |
| Deferred | 30,591 | +3.7 | 31,718 | +1.4% | 32,148 |
| Pensioners* | 18,451 | +5.2 | 19,414 | +3.2% | 20,026 |
| Total | 84,032 | | 84,928 | | 85,159 |

*Figures include spouses' and dependants' pensions

3.2 The breakdown of retirements across the Fund in Quarter 2 of 2016/17 is at **Appendix 2**.

4.0 Performance of the Pensions Administration Team

4.1 The performance figures for the second quarter of 2016/17 are as follows:

| Performance Indicator | Target in Q2 | Achieved |
|--|-----------------------|---|
| Measured work achieved within target | 98% | 98% |
| Customers surveyed ranking service good or excellent | 94% | 96.77% |
| Employer satisfaction with the service ranked good or excellent | 90% | 100% |
| Reduce reliance on customer helpline. Phone queries reduced as a proportion of customer contacts to <29% | 29% | 42% |
| Increase numbers of registered self-service users by 700 per quarter | 700 | 963 (total increased from 12,467 to 13,430) |
| Total sickness absence in Q2 | 1.5 days per employee | 0.64 days per employee |

4.2 The overall performance has improved this quarter. A number of new staff have started in the Section which has assisted with work allocation and the through-put of work.

- 4.3 Telephone queries increased due to the Annual Benefit Statement exercise which is carried out at the end of August each year. This exercise resulted in a large number of calls from members wishing to clarify issues or report changes in their personal information. Although there is an ongoing element in the Communications Strategy to encourage member self-service and e-communications, the Pensions Administration Team continues to provide a fully manned, dedicated telephone helpline. It is acknowledged that members retiring and those receiving pension benefits have a particular need to speak to a member of staff in the Pensions Team over the telephone. The telephone helpline also provides a vital point of contact for family members to inform the Pensions Team when Scheme members have passed away
- 4.4 The target for this year has been changed to an increase per quarter of 700 new registered users rather than focussing on the overall total. There has been an increase of 963 new users in Quarter 2.

5.0 CIPFA BENCHMARKING RETURN 2015/16

- 5.1 The benchmarking results for the year 2015/16 showed that the unit cost for NYPF Pensions Administration was £15.42 compared with an average across the whole of the CIPFA Benchmarking Club of £18.18.
- 5.2 The NYPF unit cost has increased from £14.14 in 2014/15 due to an increase in staff numbers to deal with the additional complexities of the LGPS and the earlier possible retirement age of 55. The trend over the previous 5 years is shown below and demonstrates that the NYPF has continued to be well below the average for the comparators in the exercise.

| | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|---|---------|---------|---------|---------|---------|
| NYPF unit cost | £14.09 | £15.32 | £14.27 | £14.85 | £14.14 |
| Average unit cost across comparators | £19.56 | £19.21 | £19.22 | £19.01 | £18.23 |

6.0 UPDATED POLICY DOCUMENTS

- 6.1 The **Communications Strategy 2016/17** has been updated to reflect the latest communication initiatives. Each of the Local Government Pension Scheme (LGPS) Funds in England and Wales is required to publish a Statement under the LGPS (Amendment) (No 2) Regulations 2005 relating to the Communications Strategy for the Fund. The NYPF strategy for 2016/17 is attached at **Appendix 3**.
- 6.2 The strategy is designed to assist both the Fund and its employers with managing expectations and keeping the customer up to date. Some of the key strategies are shown below:
- Continue to promote self-service provision
 - Develop e-communication for deferred members
 - Encourage retirement planning and financial awareness via pre-retirement courses
 - Flowchart template detailing the timeline of the retirement process. Employers can tailor timescales to fit payroll processing and issue flowchart to retiring members

- Face to face training for employers
- Develop relationships with new employers (particularly academies) and provide dedicated support

7.0 ANNUAL ALLOWANCE EXERCISE FOR 2015/16 TAX YEAR

7.1 HMRC requires that a check is made on the growth in each person's pension scheme benefits each year. If the growth in pension benefits exceeds a value set by HMRC then a 'tax charge' will apply. The level of increase which was permitted for the year 2015/2016, before a tax charge would apply, was split into two parts for this year due to the transition to a new lower level of £40,000. The levels which applied for the 2015/2016 period was as follows (as the calculation was split into 'two mini tax years').

- £80,000 for the 2015/2016 tax year as a whole
- £40,000 for the 'post-alignment' tax year

7.2 Those affected tend to be members who had either been new joiners to NYPF who had come from local government employment elsewhere in the country and had transferred their previous LGPS pension rights into NYPF, or who have received an internal promotion with their current employer.

7.3 For 2015/2016, all affected members have been informed in writing and provided with the required Pension Savings Statements, as required by HMRC, within the HMRC deadline.

7.4 Thirteen Pension Savings Statements were issued by the deadline of 6 October 2016. There were three members who had a tax charge. The information regarding the affected members has been reported to HMRC as per the required procedure.

8.0 Member Training

8.1 The Member Training Record showing the training undertaken over the year to 30 September 2016 is attached as **Appendix 4**.

8.2 Upcoming courses, seminars and conferences available to Members are set out in the schedule attached as **Appendix 5**. Please contact Gary Bowden (01609 532520 or email gary.bowden@northyorks.gov.uk) for further information or to reserve a place on an event.

9.0 Meetings Timetable

9.1 The latest timetable for forthcoming meetings of the Committee and Investment Manager meetings is attached as **Appendix 6**.

10.0 Recommendations

10.1 Members are asked to note the contents of this report.

GARY FIELDING
Treasurer
Central Services
County Hall
Northallerton

14 November 2016

LATEST POSITION RE ADMISSION AGREEMENTS

| Admission Agreement | Current Position and Action to Be Taken (If Applicable) |
|--|--|
| SPS Group Ltd providing cleaning services for Norton College | The contract for Norton College's cleaning services has been awarded to SPS Group Ltd from 1 November 2016. An admission agreement has been put in place to allow eight staff to continue to have access to the Local Government Pension Scheme. |
| Caterservice Ltd providing staff restaurant services for NYCC | The contract for the staff restaurant services for NYCC at County Hall has been awarded to Caterservice Ltd from 10 October 2016. An admission agreement has been put in place to allow three staff to continue to have access to the Local Government Pension Scheme. |
| Elite Cleaning Ltd providing cleaning services for Skipton Academy | Skipton Academy has awarded the contract for cleaning services to Elite Cleaning Ltd from 2 May 2016. An admission agreement has been drafted to allow three staff to continue to contribute to the Local Government Pension Scheme. |
| NY Property Services Ltd | An admission agreement has been put in place to allow three staff to continue to contribute to the Local Government Pension Scheme when they transferred to the employment of NY Property Services Ltd on 1 November 2016. |

LATEST ACADEMY ADMISSIONS

| Original name of school | Date of conversion/ current position | Name of academy after conversion |
|----------------------------------|--|---|
| Brayton High School (NYCC) | School converted to an academy on 1 September 2016 | School became part of the Rodillian Multi Academy Trust |
| Hookstone Chase CP School (NYCC) | School converted to an academy on 1 September 2016 | School became part of the Northern Star Academies Trust |
| Scalby School (NYCC) | School converted to an academy on 1 September 2016 | School became part of the Scalby Learning Trust |
| Hawes CP School (NYCC) | School converted to an academy on 1 October 2016 | School became part of the Yorkshire Collaboration Academy Trust |
| Burton Green School (NYCC) | School converted to an academy on 1 October 2016 | School became part of the Hope Learning Trust |
| East Whitby CP School (NYCC) | School converted to an academy on 1 November 2016 | School became part of the Enquire Learning Trust |
| Stokesley CP School (NYCC) | School converted to an academy on 1 November 2016 | School became part of the Enquire Learning Trust |

NORTH YORKSHIRE PENSION FUND
Cumulative Total of Retirements from 1 April 2016 to 30 September 2016

| <i>Employer</i> | <i>Normal</i> | <i>Ill-Health</i> | | <i>Efficiency/ Redundancy/ Employers Consent</i> | <i>Total</i> |
|---|---------------|---|---------------|--|--------------|
| | | <i>Actuarial Assumption[£]</i> | <i>Actual</i> | | |
| 007 - Scarborough BC | 3 | 2 | 2 | 7 | 12 |
| 009 - Hambleton DC | 1 | 1 | - | 1 | 2 |
| 010 - Ryedale DC | 2 | 1 | 1 | 7 | 10 |
| 011 - Harrogate BC | 22 | 2 | - | 9 | 31 |
| 012 - Richmondshire DC | 2 | 1 | - | - | 2 |
| 013 - Selby DC | 2 | 1 | 1 | 4 | 7 |
| 014 - Craven DC | 1 | 1 | - | - | 1 |
| 016 - York St John University | 7 | - | - | 20 | 27 |
| 020 - York | 38 | 7 | 5 | 11 | 54 |
| 025 - NYCC | 162 | 22 | 1 | 13 | 176 |
| 041 - Skipton Town Council | 1 | - | - | - | 1 |
| 051 - NY Fire and Rescue | 3 | 1 | 1 | 2 | 6 |
| 055 - Uni of Hull | 5 | - | - | - | 5 |
| 056 - Malton Town Council | 1 | - | - | - | 1 |
| 057 - Yorkshire Housing | 2 | 1 | 1 | - | 3 |
| 061 - Askham Bryan College | 2 | 1 | - | - | 2 |
| 062 - Craven College | 1 | 1 | - | - | 1 |
| 065 - Selby College | 3 | - | - | - | 3 |
| 068 - Scar 6 th Form College | 2 | - | - | - | 2 |
| 074 - York College | 4 | - | - | - | 4 |
| 077 - Craven Housing | 1 | - | - | - | 1 |
| 080 - Yorkshire Coast Homes | 1 | - | - | - | 1 |
| 102 - South Craven School | 1 | - | - | - | 1 |
| 103 - Archbishop Holgate Sc | 2 | - | - | - | 2 |
| 104 - Norton College | 2 | - | - | - | 2 |
| 110 - Ringway | 4 | 1 | 1 | - | 5 |
| 113 - Harrogate High | 2 | - | - | - | 2 |
| 120 - Churchill Security | 1 | - | - | - | 1 |
| 128 - NY Police and Crime C | 6 | - | - | - | 6 |
| 129 - NY Chief Constable | 13 | 2 | 2 | 11 | 26 |
| 130 - Explore York | 3 | - | - | - | 3 |
| 132 - Housing 21 | 1 | - | - | - | 1 |
| 139 - Roseberry Academy | 3 | - | - | - | 3 |
| 146 - Huntington Primary Sch | 1 | - | - | - | 1 |
| 149 - SLM Scarborough | 1 | - | - | - | 1 |
| 153 - Red Kite Learning Trust | 1 | - | - | - | 1 |

| | | | | | |
|-----------------------------|-----|----|----|----|-----|
| 156 - Yorkshire Causeway ST | 1 | - | - | - | 1 |
| 157 - South Bank MAT | 2 | - | - | - | 2 |
| Others | - | 6 | - | - | - |
| TOTALS | 310 | 51 | 15 | 85 | 410 |

(75%)

(4%)

(21%)

| | | | | | |
|-----------------------------|-----|-----|----|----|-----|
| Quarter by quarter analysis | | | | | |
| Quarter 1 | 129 | | 7 | 28 | 164 |
| Quarter 2 | 181 | | 8 | 57 | 246 |
| Quarter 3 | - | | - | - | - |
| Quarter 4 | - | | - | - | - |
| | 310 | N/A | 15 | 85 | 410 |

≠ **Estimated** actuarial assumptions re Ill-health numbers for the whole year - 2016/2017



Communications Strategy

2016 / 2017

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Introduction

The North Yorkshire Pension Fund is committed to providing excellent customer care. The Communications Strategy is a key part of our customer service plans. The Fund recognises the limitations of employers to be able to provide information within tight timescales on a monthly and annual basis. With this in mind, the focus of this year's Communications Strategy is 'Managing expectations and keeping the customer up to date'.

Goals 2016/17

Goals have been set in relation to the categories of LGPS stakeholders.

Theme A – 'Managing expectations and keeping active members up to date'

Continue to promote online member self-service and encourage members to check their online Annual Benefit Statement, paying particular attention to their Career Average Benefits

Explain the potential impact of 'contracting-out' and signpost members to information about the New State Pension through a dedicated newsletter

Encourage members to plan for their retirement by providing pre-retirement presentations in conjunction with Affinity Connect. Information regarding financial planning and lifestyle adjustments will be provided

Manage the member's expectations by developing a simple flowchart explaining the timeline of the retirement process. This will show the flow of data between the employer and the pension fund from the time the member notifies their employer of their intention to retire to the payment of their pension benefits

Provide a dedicated page on the NYPF website to keep active members up to date on issues regarding investment reform (pooling)

Theme B – 'Managing expectations and keeping employers up to date'

Offer face to face training and support for new employers or new staff within existing employers

Develop a simple flowchart template explaining the timeline of the retirement process. The employer will be able to edit the flowchart to show their own timescales and internal contacts. This links in with managing the member's expectations at retirement

Continue NYPFOG meetings with the focus on practical sessions and current issues. Positive feedback has been received from previous sessions with employers enjoying the 'hands-on' approach in an informal group setting

Develop relationships with new employers to support them with the requirements of the LGPS. Following the Education Act 2011 there has been a significant growth in scheme employers largely in respect of Secondary schools converting to Academies and the trend is still continuing with Primary school Academies

Issue regular updates to all employers electronically including consultations, regulation changes (that impact the employer), best practice and promotion of pre-retirement courses

Assist employers with the delivery of up to date and accurate information by presenting at-retirement courses

Provide a dedicated page on the NYPF website to keep employers up to date on issues regarding investment reform (pooling)

Theme C – ‘Managing expectations and keeping retired members up to date’

A dedicated newsletter to include:

- Why there was no pensions increase in April 2016
- The potential impact of the New State Pension
- A reminder about the Pensioners’ Representative

Monitor whether the retirement process flowchart results in improved feedback from the retired members’ survey

Provide a dedicated page on the NYPF website to keep retired members up to date on issues regarding investment reform (pooling)

Theme D – ‘Managing expectations and keeping deferred members up to date’

A dedicated newsletter to include:

- Why there was no pensions increase in April 2016 and leavers during 2015/16 affected by 0.1% negative revaluation
- The potential impact of the New State Pension
- When deferred benefits are payable
- When NYPF will contact the member about payment of benefits
- How members can keep track of their deferred benefits using the new online benefit projector.
- How member can check their Annual Benefit Statement using the online member self-service facility

Encourage electronic communication with deferred members. Processes have been updated to encourage deferred members to ‘opt into’ electronic communications. This will allow a quicker and more efficient retirement process when the member wants to claim their pension benefits. It will also allow regular updates to be provided more frequently. It will also increase the number of newsletters which can be sent via email rather than by post, saving on printing and postage.

Provide a dedicated page on the NYPF website to keep deferred members up to date on issues regarding investment reform (pooling)

Review of this Strategy

This Strategy is prepared and considered by the Pension Fund Committee on an annual basis. However, employers can, at any time, suggest improvements to the Communications Strategy of the Fund.

Stakeholders

This Communications Strategy applies to all the NYPF stakeholders who are defined as follows:

- Employers
 - Scheduled Bodies
 - Admitted Bodies
- Scheme Members (including councillor scheme members)
 - Active members (contributors)
 - Retired members and Dependents
 - Deferred members
- Eligible employees working for Fund employers but not currently contributing
- AVC provider (Prudential)
- Actuary

- Legal Adviser
- Pensions Administration Software Provider
- Members of the Pension Fund Committee
- Members of the Pension Board
- Officers in the Pension Section
- Other NYCC officers undertaking work on behalf of the Fund

Summary of progress against 2015/16 Strategy

| Items in 2015/16 Strategy | Summary of 2015/16 Progress | Year End Status |
|---|---|---|
| <p>Theme A: Provide practical support through innovative communications methods for active members</p> | <ol style="list-style-type: none"> 1. Promote the continued use of the self-service provision, with particular emphasis on encouraging members to check their Career Average Benefits via the online Annual Benefit Statement. This will help members with retirement planning including understanding the way in which CARE benefits build up each year. 2. Encourage the use of electronic communications in relation to all administration processes via the online self-service provision. This provides a much faster service for the member and increased administration turn-around times. This is currently offered for estimate requests and quotes prior to retirement. 3. Allow members to securely upload documents to their online pension record so that option forms can be received electronically via a secure route. Currently members either post documents to NYPF or email them to the generic email address. | <p>All targets achieved apart from 3. which needs a software development from Heywood</p> |
| <p>Theme B: Providing practical support through innovative communications methods for employers</p> | <ol style="list-style-type: none"> 1. Provide online training modules for employers which can be easily accessed from the employer pages of the NYPF website. This addresses the requirements of the Administering Authorities to deliver training but without the need for Pensions Section staff to be present. The format is practical examples which can be accessed at any time and used when completing relevant forms. The training is web based so provides universal access from any location. The content is easily updated so reduces the risk of out of date information being passed on to new staff. This is particularly useful, given the number of smaller employers that are in the Pension Fund who are located outside of North Yorkshire. 2. Provide practical training for employers, in the form of targeted sessions at NYPF meetings. This ensures a consistent message is delivered once to a wide range of employers. It is an opportunity for employers to ask questions about 'real' cases but also for the management team to gauge employers' understanding. For those unable to attend, presentation slides and examples are provided on the NYPF website. 3. Provide a more tailored approach for new employers in the Fund who may need additional support e.g. academies taking on their own payroll/HR responsibilities. | <p>Not achieved</p> <p>Achieved</p> <p>Achieved</p> |

| Items in 2015/16 Strategy | Summary of 2015/16 Progress | Year End Status |
|---|---|---|
| <p>Theme C: Providing practical support through innovative communications methods for pensioners</p> | <ol style="list-style-type: none"> 1. Encourage feedback from recently retired members via the retired members' survey which is accessed from the NYPF website. Feedback is analysed and responded to where requested. Suggested improvements are considered and processes are amended where appropriate. 2. Dedicated page for pension board retired members' representative on the NYPF website. This is a continuation of the facility previously available for retired members to communicate with their representative. Articles regarding the newly formed pension board will appear in this area. 3. Encourage electronic communication with pensioners. Processes have been updated to encourage retired members to 'opt into' electronic communications. This has already allowed an increase in the number of annual retired member newsletters which have been sent out via email rather than by post, saving on printing and postage. All new retired members will be asked to provide a home email address. Existing pensioners who contact the Pensions Section are asked to provide an email address. | <p>All targets achieved</p> |
| <p>Theme D: Provide practical support through innovative communications methods for deferred members</p> | <ol style="list-style-type: none"> 1. Extend the use of the self-service provision to members with 'deferred benefits' so that online calculations can be done. This will allow members to decide when to take their pension benefits and contact the Pensions Section at the time they wish to have them paid out. Currently much work is done on asking members if they wish to take pension benefits at a time when substantial reductions apply to the benefits and many members decide to defer payment. 2. Deferred members will also be able to use self-service to check on the tax free cash available at different ages which will reduce the number of queries dealt with in the Pensions Section as this is an area which many members are interested in after the Government's recent Freedom and Choice initiative. Freedom and Choice allows pension benefits to be 'cashed in' and although it does not apply to the LGPS it is possible for a larger tax free cash lump sum to be taken from the LGPS. | <p>Achieved</p> <p>Not achieved. Not developed by software provider (Heywood)</p> |

| Date | Title or Nature of Course | Bateman B | Blackie J | De Courcye-Bailey M | Harrison-Topham R | Mulligan P | Swiers H | Weighell J | Clark J | Steward C |
|----------------|---------------------------------|-----------|-----------|---------------------|-------------------|------------|----------|------------|---------|-----------|
| 14-16 Oct 2015 | NAPF Investment Conference | ✓ | | | | ✓ | ✓ | ✓ | | |
| 17 Nov 2015 | LGA Trustee Fundamentals | | | | | | | | | |
| 26 Nov 2015 | NYCC Investment Manager Meeting | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 27 Nov 2015 | NYCC Investment Manager Meeting | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 02-04 Dec 2015 | LAPFF Annual Conference | | ✓ | | | | | | | |
| 26 Feb 2016 | NYCC Investment Manager Meeting | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 9-11 Mar 2016 | Investment Conference | | | | | | | | ✓ | |
| 16-18 May 2016 | NAPF Investment Conference | ✓ | | | | | | | ✓ | |

PENSION FUND COMMITTEE TIMETABLE FOR MEETINGS IN 2016, 2017 AND 2018

| Meeting Date | Time & Venue | Event | Fund Managers |
|-------------------|---------------------|------------------------------------|----------------|
| 24 November 2016 | 10am, The Grand | Pension Fund Committee | |
| 25 November 2016 | 10am Meeting Room 3 | Investment Strategy Review Meeting | |
| 23 February 2017 | 10am, TBC | Pension Fund Committee | |
| 24 February 2017 | 10am, TBC | Investment Manager Meeting | 2 Managers TBC |
| 25 May 2017 | 10am, TBC | Pension Fund Committee | |
| 26 May 2017 | 10am, TBC | Investment Manager Meeting | 2 Managers TBC |
| 06 July 2017 | 10am, TBC | Pension Fund Committee | |
| 07 July 2017 | 10am, TBC | Investment Manager Meeting | 2 Managers TBC |
| 14 September 2017 | 10am, TBC | Pension Fund Committee | |
| 15 September 2017 | 10am, TBC | Investment Manager Meeting | 2 Managers TBC |
| 23 November 2017 | 10am, TBC | Pension Fund Committee | |
| 24 November 2017 | 10am, TBC | Investment Manager Meeting | 2 Managers TBC |
| 22 February 2018 | 10am, TBC | Pension Fund Committee | |
| 23 February 2018 | 10am, TBC | Investment Manager Meeting | 2 Managers TBC |

UPCOMING TRAINING AVAILABLE TO MEMBERS

| <i>Provider</i> | <i>Course / Conference Title</i> | <i>Date(s)</i> | <i>Location</i> | <i>Themes / Subjects Covered</i> |
|------------------------|--|---------------------------------|---|---|
| LAPFF | Annual Conference | 7-9 December 2016 | The Highcliffe Marriott Hotel Bournemouth | LGPS Pooling Panel, Infrastructure/Impact Investment Panels. |
| CIPFA | Members local pension board spring seminar | 1 March 2017 1.30pm – 4.30pm | Albion Street Leeds | Latest information updates, training on specific topics and opportunities for discussion and networking with members of other Funds' Boards. |
| LGC | Investment Seminar | 2-3 March 2017 | Carden Park Cheshire | Government's Efficiency Challenge and Other Emerging Issues. Strategic Asset Allocation. Governance and Accountability. |
| PLSA | Investment Conference | 8-10 March 2017 | EICC Edinburgh | Key Investment Choices, Challenges and Changes Faced by Institutional Investors. |
| PLSA | Local Authority (Pension) Conference | 15 – 17 May 2017 | Cotswold Four Pillars Hotel Gloucestershire | Keynote speeches, specialist break-out sessions, Learning Zone, fringe meetings, a welcome drinks reception, conference gala dinner and exhibition. |

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

24 NOVEMBER 2016

BUDGET / STATISTICS

Report of the Treasurer

1.0 PURPOSE OF THE REPORT

1.1 To report on the following:

- (a) the expenditure/income position to date for 2016/17 (see section 2)
- (b) the cash deployment of the Fund (see section 3)

2.0 2016/17 FORECAST

- 2.1 The Cash surplus for the quarter to 30 September 2016 (£2.7m) was higher than forecast (£2.2m), by £0.5m.
- 2.2 Pensions Payroll Expenditure of £38.2m was higher than forecast by £0.7m.
- 2.3 Contributions Income of £57.1m represents a £2.1m positive variance to budget.
- 2.4 Transfer Income for the period was £0.6m more than forecast at £4.1m, while Transfer Expenditure was £1.6m more than budget at £3.6m. Short term variances are to be expected. The forecasts for the year remain unchanged.

3.0 CASH DEPLOYMENT IN 2016-17

- 3.1 The cash generated in the year by the annual surplus, together with the opening balance has been utilised in 2016/17 as follows:

| | £m | |
|--|--------------|----------------------|
| Cash Balance Brought Forward from 2015/16 | 3.8 | |
| Surplus to 30 September 2016 (as per Appendix 1) | 2.7 | |
| Cash Available as at 30 September 2016 | 6.5 | (a) |
| Rebalancing | | |
| May 2016 (transfer to Threadneedle) | -10.0 | |
| June 2016 (transfer to Threadneedle) | -30.0 | |
| June 2016 (transfer to Threadneedle) | -25.0 | |
| June 2016 (transfer from Standard Life) | 25.0 | |
| Total Rebalancing | -40.0 | (b) |
| Accruals for September 2016 | 5.4 | (c) |
| Available for Rebalancing of the Fund | -28.1 | (d) = (a+b+c) |

- 3.2 At the end of September 2016 the Fund held a negative cash balance as a result of an opportunity to add to the property investment with Threadneedle in the previous quarter. NYPF disinvested £41.9m from ECM on the 10 November 2016 to address this deficit and provide sufficient cash to satisfy the Fund's requirements over the current quarter.

4.0 RECOMMENDATIONS

- 4.1 Members to note the contents of the report.

GARY FIELDING
Treasurer
Central Services
County Hall
Northallerton

14 November 2016

| | | Budget 2016/17 | Profiled Budget to 30 Sept | Actual Income/ Expenditure to 30 Sept | Variance ie (iii-ii) | Forecast 2016/17 |
|----------------------------|------------------------------|---------------------------|---|--|---------------------------------|-----------------------------|
| | | £000 | £000 | £000 | £000 | £000 |
| | | (i) | (ii) | (iii) | (iv) | (v) |
| <u>EXPENDITURE</u> | | | | | | |
| Benefits | | | | | | |
| | | 75,000 | 37,500 | 38,242 | 742 | 75,000 |
| | | 27,000 | 15,000 | 15,031 | 31 | 27,000 |
| | sub total (a) | 102,000 | 52,500 | 53,273 | 773 | 102,000 |
| Admin Expenses | | | | | | |
| | | 1,100 | 550 | 550 | 0 | 1,100 |
| | | 250 | 100 | 103 | 3 | 250 |
| | | 200 | 100 | 81 | -19 | 200 |
| | sub total (b) | 1,550 | 750 | 734 | -16 | 1,550 |
| Investment Expenses | | | | | | |
| | | 3,400 | 1,700 | 1,901 | 201 | 3,400 |
| | | 4,500 | 1,000 | 888 | -112 | 4,500 |
| | | 150 | 75 | 80 | 5 | 150 |
| | | 260 | 130 | 139 | 9 | 260 |
| | sub total (c) | 8,310 | 2,905 | 3,008 | 103 | 8,310 |
| | Total Expenditure (d) | 111,860 | 56,155 | 57,015 | 860 | 111,860 |
| INCOME | | | | | | |
| Contributions | | | | | | |
| | | 108,000 | 55,000 | 57,134 | 2,134 | 108,000 |
| | | 2,500 | 1,250 | 1,460 | 210 | 2,500 |
| | sub total (e) | 110,500 | 56,250 | 58,594 | 2,344 | 110,500 |
| Transfers | | | | | | |
| | | 7,000 | 3,500 | 4,119 | 619 | 7,000 |
| | | -4,000 | -2,000 | -3,643 | -1,643 | -4,000 |
| | sub total (f) | 3,000 | 1,500 | 476 | -1,024 | 3,000 |
| Other Income | | | | | | |
| | | 1,300 | 650 | 655 | 5 | 1,300 |
| | sub total (g) | 1,300 | 650 | 655 | 5 | 1,300 |
| | Total Income (h) | 114,800 | 58,400 | 59,725 | 1,325 | 114,800 |
| | | | | | | |
| | Net Surplus (i) | 2,940 | 2,245 | 2,710 | 465 | 2,940 |

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

24 NOVEMBER 2016

PERFORMANCE OF THE FUND'S PORTFOLIO FOR THE QUARTER
ENDING 30 SEPTEMBER 2016

Report of the Treasurer

1.0 PURPOSE OF REPORT

- 1.1 To report the investment performance of the overall Fund, and of the individual Fund Managers, for the period to 30 September 2016.

2.0 PERFORMANCE REPORT

- 2.1 The Fund Analysis & Performance Report (**Appendix 1**) produced by BNY Mellon Asset Servicing (MAS) provides a performance analysis of the North Yorkshire Pension Fund for the quarter ending 30 September 2016.
- 2.2 The report highlights the performance of the total Fund by asset class against the customised Fund benchmark. It also includes an analysis of the performance of each manager against their specific benchmark and a comparison of performance levels over time.

3.0 PERFORMANCE OF THE FUND

- 3.1 The absolute overall return for the quarter (+10.2%) was above the customised benchmark for the Fund (+7.3%) by 2.9%.
- 3.2 The 12 month absolute rolling return was +23%, 2% above the customised benchmark of +21%.
- 3.3 Absolute and relative returns over the rolling years to each of the last four quarter ends were as follows.

| Year End | Absolute % | Relative % |
|-------------------|------------|------------|
| 30 September 2016 | +23.0 | +2.0 |
| 30 June 2016 | +7.3 | -2.3 |
| 31 March 2016 | +0.4 | -0.7 |
| 31 December 2015 | +6.2 | +1.8 |

- 3.4 The performance of the various managers against their benchmarks for the quarter ended 30 September 2016 is detailed on **page 8** of the MAS report and in **Section 4** below. This performance is measured on a time-weighted basis and expressed as a +/- variation to their benchmark.

- 3.5 The Appendices used in this report have been designed to present a fuller picture of recent investment performance.

Appendix 2 Fund Manager Performance over the three years to 30 September 2016 in absolute percentage terms from a starting point of “100”

Appendix 3 Solvency graph – this shows the key Asset, Liability and Deficit figures in a simple graphical format

Appendix 4 Solvency position (in % and £ terms) since the 2004 Triennial Valuation; this Appendix also shows in absolute terms the +/- in the value of assets and liabilities of the Fund

- 3.6 The separate reports of the Investment Adviser and Investment Consultant explain developments in the financial markets and in NYPF’s investments, and also look ahead over the short, medium and longer term.

4.0 FUND MANAGER PERFORMANCE

- 4.1 In monetary terms, the absolute return of +10.2% in the Quarter increased the invested value of the Fund by £260m. This Quarter, 11 managers/funds outperformed their respective benchmarks and 2 underperformed against their respective benchmarks. At the end of the September 2016 quarter the value of the Fund was £524m above the value at the end of September 2015, an increase of 23%.

Overseas Equities

- 4.2 **Fidelity** produced a relative return in the quarter that matched the benchmark return of +9.2%. Relative performance over the year to September 2016 was -1.6% against the benchmark of 29.2%. Over the last 5 years the manager has exceeded the benchmark by +1.1% p.a. (gross of fees).

Global Equities

- 4.3 The Global Alpha fund managed by **Baillie Gifford** returned +3.8% for the quarter against a benchmark return of +8.5%. Relative performance over the longer term was +2.2% over 1 year and +2.7% p.a. over 5 years. Since inception in 2006, the Fund has outperformed the FTSE All World by 2.2% p.a.

The LTGG fund, also managed by **Baillie Gifford** produced a return for the quarter of +8.4% against a benchmark return of +8.5%. LTGG is a relatively concentrated fund and short term volatility is to be expected. Relative performance over the longer term was 10.4% over 1 year and +5.4% p.a. over 5 years.

The Global equity funds for **Veritas** and **Dodge & Cox** produced a relative return of -0.6% and +4.4% respectively against the MSCI All Country World benchmark of +8.5%. Both managers invest on a global unconstrained basis so this benchmark is for performance measurement purposes only. Since inception in April 2015 Veritas returned +2.1% p.a. and Dodge & Cox -2.9% p.a. against the benchmark return of 9.1%.

UK Equities

- 4.4 **Standard Life** produced an absolute return of +15.5% for the quarter. This represents an outperformance against a benchmark return of +4%. Relative performance for the year was -0.3% against the benchmark of 10.7%. Relative annualised performance over the longer term was -3.4% p.a. over 3 years and +1.2% p.a. over five years.

Fixed Income

- 4.5 **ECM** produced +1.9% relative against cash (+0.1%) for the quarter and also +4.4% relative for the year. Annualised performance for the 5 years to September 2016 was +3.5% relative against a benchmark of +0.5%.
- 4.6 The investment in Gilts with **M&G** slightly outperformed the liability matching benchmark of +11.6% for the quarter to September 2016 by +0.3%. Performance for the year was +1.4% above the benchmark return of 31.1%, and annualised performance since inception in 2010 was +0.9% pa above the benchmark of +12.8%.

Property

- 4.7 The investments with **Hermes, L&G and Threadneedle** produced +1.3%, +3.9% and +5% respectively in relative terms, against the property index for each manager in the quarter to September 2016.
- 4.8 Over the year to September 2016 **Hermes and Threadneedle** outperformed against the benchmark, returning in absolute terms +7% and 4% respectively against a benchmark of 4.3% and 3.4% respectively. **L&G** underperformed returning +2.9% in absolute terms against the benchmark of +3.4%.
- 4.9 These figures are distorted by the temporary exit arrangements put in place after the Brexit vote.

Diversified Growth Funds

- 4.9 The Investment with the **Standard Life** Global Absolute Return Strategy (GARS) Fund produced a relative over-performance for the quarter of +0.4% against a cash benchmark of +0.1%. The **Newton Investments** Real Return Fund also produced a relative over-performance for the quarter of +1.3% against the same cash benchmark.
- 4.10 Over the period since inception in March 2013, in absolute terms, Standard Life returned +2.3% p.a. against cash of +0.5% and a performance target of +5.5%. Newton achieved +4% p.a. against cash of +0.5% and a performance target of +4.5%.

5.0 RISK INDICATORS

- 5.1 The Report (**pages 10 and 11**) includes three long-term risk indicators.

- 5.2 The Fund's annualised **Standard Deviation**, which is a reflection of volatility, was 7.5% for the rolling three year period to September 2016, 0.9% above the benchmark.
- 5.3 The **Sharpe Ratio** is a measure of how well the return compensates an investor relative to the risk taken. A higher Sharpe Ratio reflects a better return for a given level of risk or lower risk for a given level of return. The ratio for the Fund for the rolling three year period to September 2016 matches the benchmark at 1.6%.
- 5.4 The **Tracking Error** figure reflects how closely a fund manager's actual return follows their respective benchmark. As at September 2016 the figure was 2.4%.
- 5.5 The **Information Ratio** is a measure of excess returns in relation to the benchmark and the consistency of those returns. A high IR could be derived from a high portfolio return, a low benchmark return and a low tracking error. For the period up to September 2016 the ratio for the Fund was +0.6%.

6.0 **SOLVENCY**

- 6.1 The **solvency position** is presented in **Appendices 3 and 4**. As at 30 September 2016 the estimated solvency was 93%. This is a 5% increase from the solvency figure as at 31 March 2016, calculated by the Actuary during the 2016 Valuation process.
- 6.2 This increase in solvency is primarily due to asset outperformance in the first 6 months of the financial year. In this time the gross return on the Fund's assets was 15.4%.

7.0 **REBALANCING**

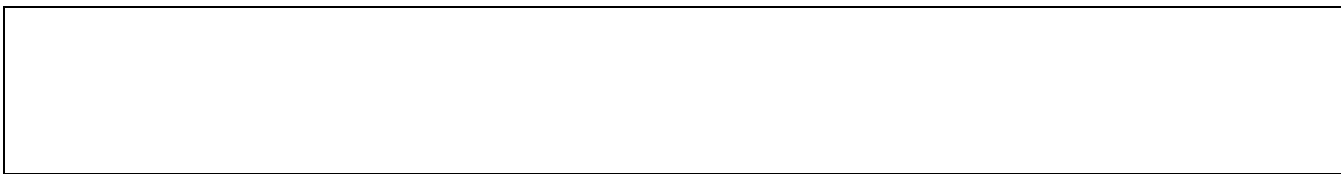
- 7.1 There has been no rebalancing in the quarter ending 30 September 2016.

8.0 **PROXY VOTING**

- 8.1 The report from PIRC is available on request summarising the proxy voting activity in the period July 2016 to September 2016. This report covers the votes cast on behalf of NYPF at all relevant company AGMs in the period and includes an analysis of voting recommendations at selected meetings and responses to company engagement.

9.0 **RECOMMENDATION**

- 9.1 Members are asked to note the investment performance of the Fund for the period ending 30 September 2016.



GARY FIELDING
Treasurer
Central Services
County Hall
Northallerton

5 November 2016



BNY MELLON
ASSET SERVICING

North Yorkshire Pension Fund

3 Months Ending 30 September 2016

Fund Analysis & Performance Report



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Fund Analysis

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Executive Summary

Market Review

Market Briefing - Quarter Ended 30 September 2016

Market Summary

During the 3rd quarter of 2016, returns were primarily positive. Most Equities, alongside Fixed Income and cash, achieved positive returns.

UK Equities

In Quarter Three 2016, the FTSE Small Cap was the best performing index with a return of 12.1%, followed by the FTSE 250 with a return of 10.7%. The FTSE 100 was the weakest performing sector with a return of 7.1%. Over the one year period ending 30th September 2016, the FTSE 100 was the best performing index with a return of 18.4%, followed by the FTSE 350 with a return of 16.9%. The FTSE 250 was the weakest performing sector with a return of 10.2%.

Technology was the best performing sector with a return of 36.1% for the quarter. The weakest performing sector was Telecommunications with a return of -2.8%. Over the one year period, returns ranged from 59.9% for Technology, to 2.2% for Consumer Services. Basic Materials was the second best performing sector with a return of 47.2%.

Overseas Equities

Most Overseas Equity markets achieved positive returns during the quarter.

Within Europe, Austria was the best performing country with a return of 19.4%. This was followed by Germany with a return of 13.3%. The weakest performing country was Denmark with a return of -2.8%. Over the one year period, Belgium was the strongest performing country with a return of 38.3%, and Greece the weakest with a return of -33.0%.

Outside of Europe, Taiwan was the best performing country with a return of 15.4%. Taiwan was followed by Brazil with a return of 15.2%. Mexico was the weakest performing country with a return of 0.8%.

Executive Summary

Market Review

UK Bonds

For UK-Bonds the third quarter returns were positive for all the sectors. Non Gilts outperformed UK-Gilts with a return of 6.0% compared to 2.3%. Within Gilts, Long-dated Gilts was the strongest performing sector with a return of 4.2%. Short-dated Gilts was the weakest performing sector with a return of 0.2%.

Over the one year period ending 30th September 2016, Non Gilts was the best performing sector with a return of 14.3% compared to the return of 12.6% for UK-Gilts. Within Gilts, Long-dated Gilts provided the strongest performance with a return of 23.0%, whilst the weakest came from Short-dated Gilts with 2.7%.

Overseas Bonds

The third quarter saw positive returns for most Overseas Bonds. Within Europe, Spain was the best performing country with a return of 6.4%. Sweden was the weakest performing country with a return of 2.3%. Outside Europe, Australia was the best performing country with a return of 6.7%. Japan was the weakest performing country outside Europe with a return of 2.0%.

Over the twelve month period, most European Bonds saw positive returns. Spain provided the strongest performance with a return of 27.6%, followed by Belgium with a return of 27.3%. Outside Europe, the best performance came from the Japan with a return of 47.1%. The weakest performing country was USA with a return of 21.8 %.

UK Index-Linked Gilts

UK Index Linked-Gilts achieved a positive return of 10.1% for the third quarter of 2016. Within this sector, Long-dated Index-Linked Gilts provided the strongest performance with a return of 12.9%, whereas the weakest performance was provided by Short-dated Index-Linked Gilts with return of 0.9%.

Over the one year period to 30th September 2016, on an overall basis UK Index-Linked Gilts achieved a return of 24.1%. Over the same period, Long-dated Index-Linked Gilts was the strongest performing sector with a return of 32.4%, whereas Short-dated Index Linked Gilts showed the weakest performance, returning 2.9%.

UK Cash

Cash achieved a return of 0.1% over the quarter and 0.3% over the last twelve months.

Fund Performance, Risk and Allocation Highlights

During the third quarter of 2016, the fund returned 10.22% versus its benchmark of 7.32%, thereby outperforming by 2.90%. In terms of longer period performance, the fund has outperformed over 3 years by 1.48% p.a.

At asset class level, over the quarter, the fund outperformed its blended benchmark in the majority of asset classes. Global Equity Units and UK Equities are the best performing sectors which outperformed its benchmark by 4.81% and 4.72% respectively.

Over the quarter, majority of the accounts outperformed their benchmarks. The best performance (excluding the Cash Account) was shown by Baillie Gifford LTGG which outperformed its benchmark by 8.46%.

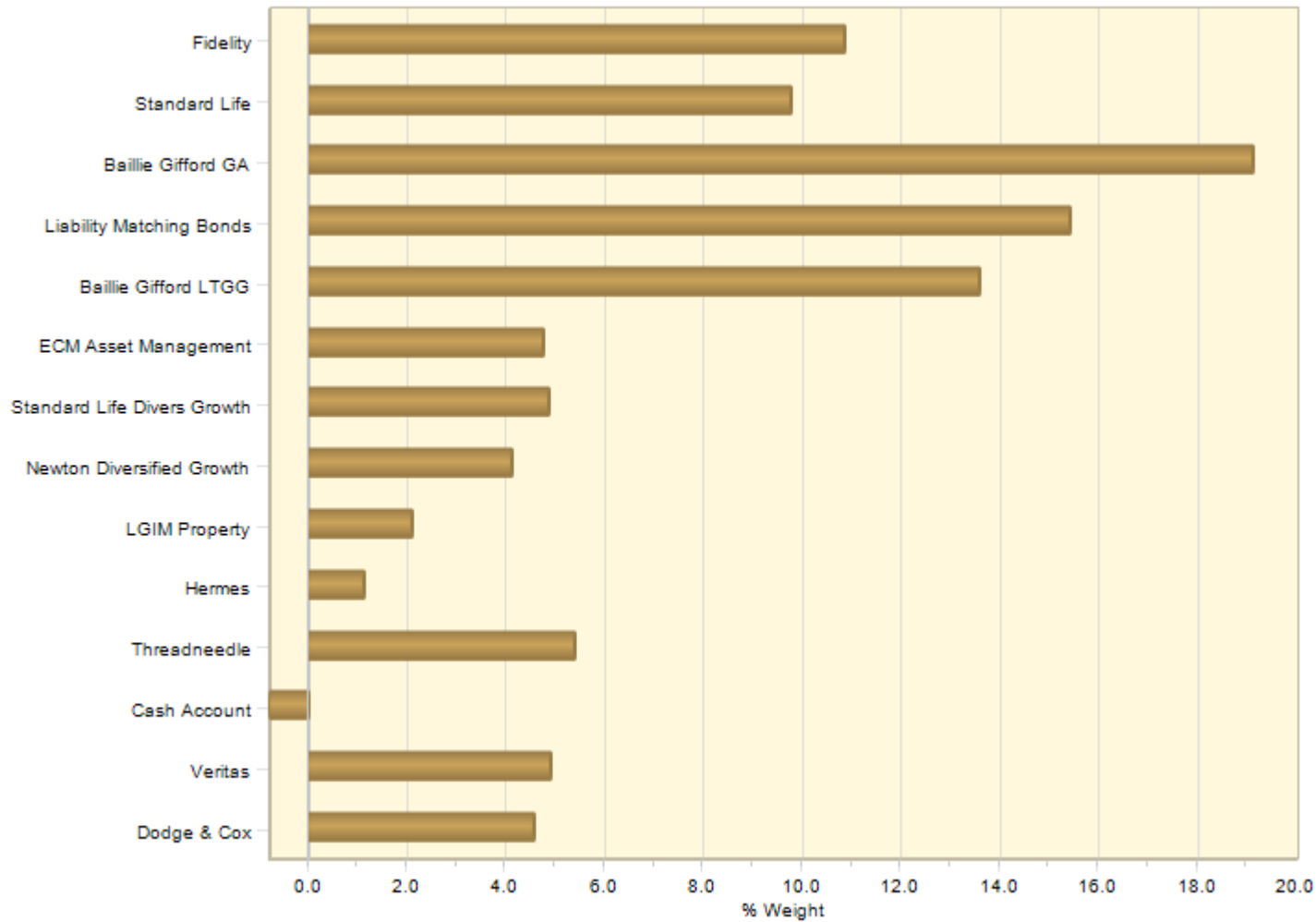
For asset allocation the fund is closely matched to the benchmark. UK Equities and Alternatives were the sectors where the fund was underweighted by 3.58% and 2.95% respectively.

Fund Allocation



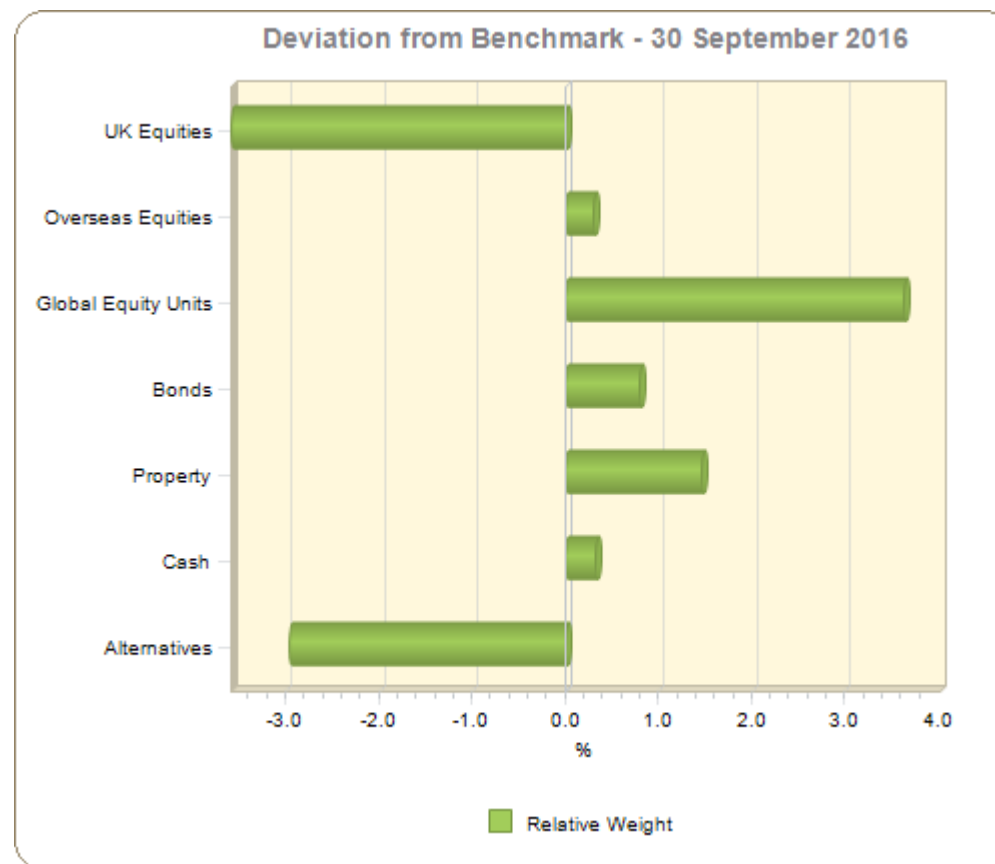
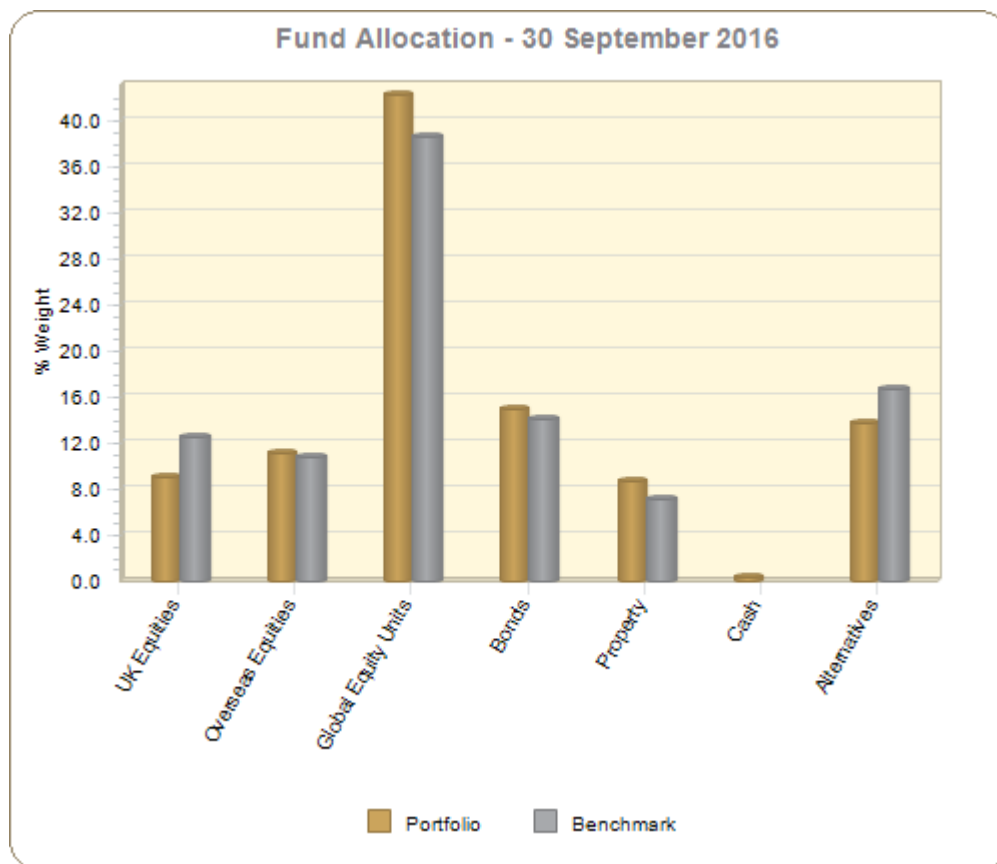
Fund Allocation - Managers

Manager Allocation - 3 Months Ending 30 September 2016



| Manager | Weight (%) |
|-----------------------------|------------|
| Fidelity | 10.88 |
| Standard Life | 9.80 |
| Baillie Gifford GA | 19.14 |
| Liability Matching Bonds | 15.44 |
| Baillie Gifford LTGG | 13.59 |
| ECM Asset Management | 4.75 |
| Standard Life Divers Growth | 4.87 |
| Newton Diversified Growth | 4.13 |
| LGIM Property | 2.13 |
| Hermes | 1.14 |
| Threadneedle | 5.39 |
| Cash Account | -0.77 |
| Veritas | 4.92 |
| Dodge & Cox | 4.59 |

Fund Allocation - Relative Analysis



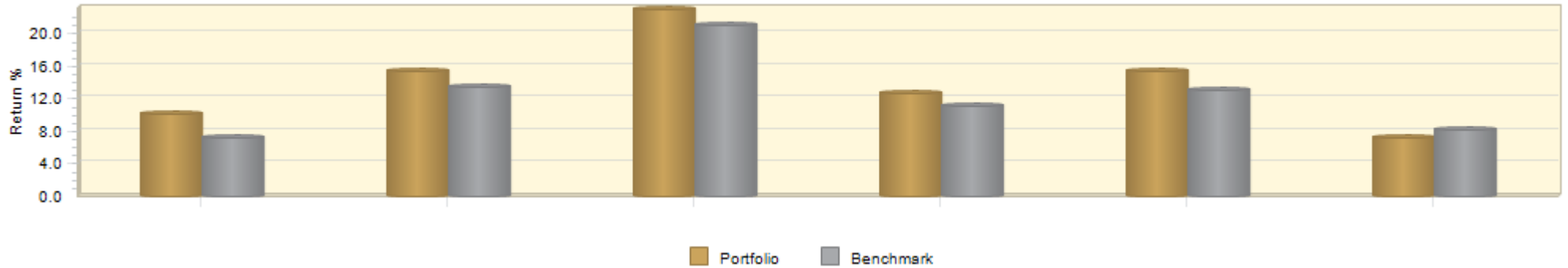
| | UK Equities | Overseas Equities | Global Equity Units | Bonds | Property | Cash | Alternatives |
|-----------------|-------------|-------------------|---------------------|-------|----------|------|--------------|
| Portfolio | 9.02 | 11.11 | 42.24 | 14.89 | 8.66 | 0.33 | 13.75 |
| Benchmark | 12.60 | 10.80 | 38.60 | 14.10 | 7.20 | 0.33 | 16.70 |
| Relative Weight | -3.58 | 0.31 | 3.64 | 0.79 | 1.46 | 0.33 | -2.95 |

Fund Performance



Fund Performance - Summary

Periodic Performance



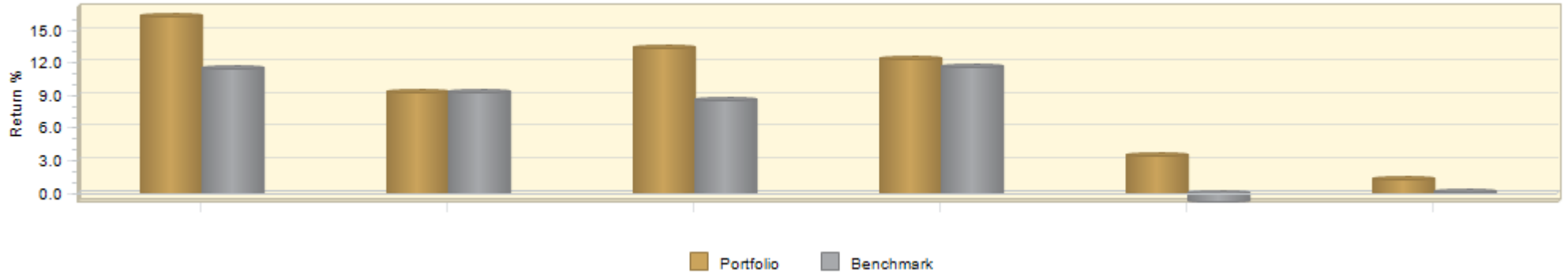
| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | 5 Years (Ann) | Since Inception (Ann) |
|-----------|---------|---------------------|--------|---------------|---------------|-----------------------|
| Portfolio | 10.22 | 15.37 | 22.95 | 12.59 | 15.36 | 7.35 |
| Benchmark | 7.32 | 13.44 | 21.05 | 11.11 | 13.09 | 8.18 |

Inception Date: 31 Jan 2002

Ann = Annualised

Fund Performance - Segment Analysis

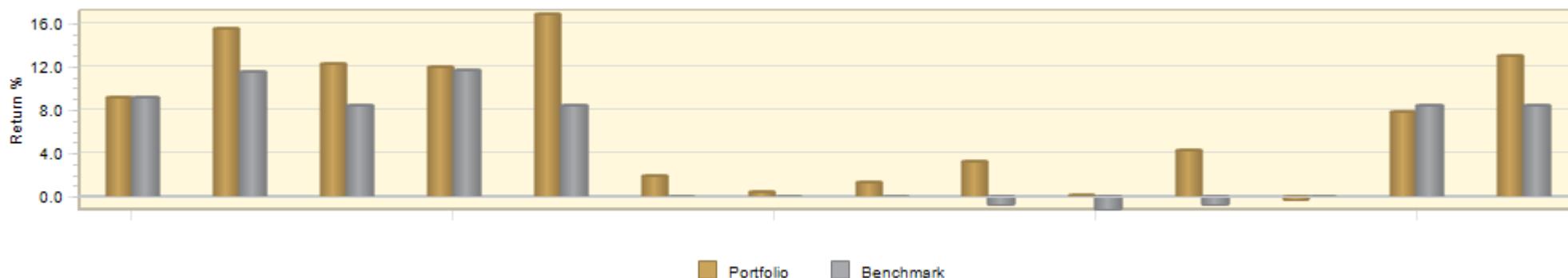
Segment Performance - 3 Months Ending 30 September 2016



| | UK Equities | Overseas Equities | Global Equity Units | Bonds | Property | Alternatives |
|-----------|-------------|-------------------|---------------------|-------|----------|--------------|
| Portfolio | 16.20 | 9.25 | 13.28 | 12.36 | 3.46 | 1.27 |
| Benchmark | 11.48 | 9.22 | 8.47 | 11.65 | -0.84 | 0.10 |

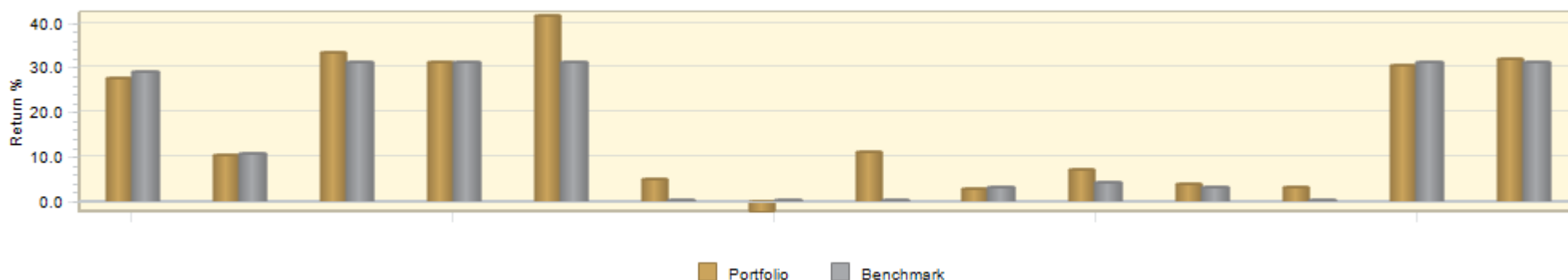
Fund Performance - Manager Overview

Manager Performance - 3 Months Ending 30 September 2016



| | Fidelity | Standard Life | Baillie Gifford GA | Liability Matching | Baillie Gifford LTGG | ECM Asset Management | Standard Life Divers | Newton Diversified | LGIM Property | Hermes | Threadneedle | Cash Account | Veritas | Dodge & Cox |
|-----------|----------|---------------|--------------------|--------------------|----------------------|----------------------|----------------------|--------------------|---------------|--------|--------------|--------------|---------|-------------|
| Portfolio | 9.15 | 15.46 | 12.33 | 11.95 | 16.92 | 1.98 | 0.50 | 1.36 | 3.25 | 0.18 | 4.27 | -0.21 | 7.85 | 12.95 |
| Benchmark | 9.22 | 11.48 | 8.46 | 11.65 | 8.46 | 0.10 | 0.10 | 0.10 | -0.68 | -1.15 | -0.68 | 0.07 | 8.50 | 8.50 |

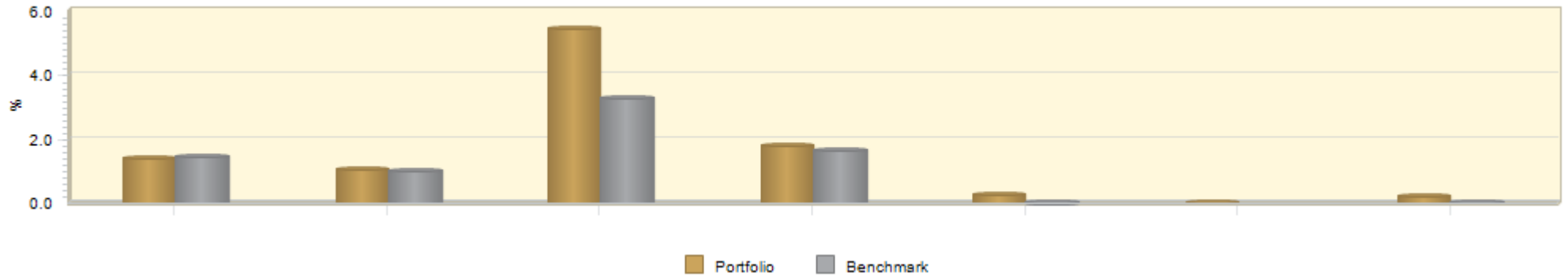
Manager Performance - 1 Year Ending 30 September 2016



| | Fidelity | Standard Life | Baillie Gifford GA | Liability Matching | Baillie Gifford LTGG | ECM Asset Management | Standard Life Divers | Newton Diversified | LGIM Property | Hermes | Threadneedle | Cash Account | Veritas | Dodge & Cox |
|-----------|----------|---------------|--------------------|--------------------|----------------------|----------------------|----------------------|--------------------|---------------|--------|--------------|--------------|---------|-------------|
| Portfolio | 27.59 | 10.40 | 33.55 | 31.20 | 41.72 | 4.86 | -2.17 | 11.26 | 2.93 | 7.00 | 3.97 | 3.36 | 30.60 | 31.97 |
| Benchmark | 29.22 | 10.69 | 31.31 | 31.05 | 31.31 | 0.48 | 0.48 | 0.48 | 3.35 | 4.31 | 3.35 | 0.34 | 31.30 | 31.30 |

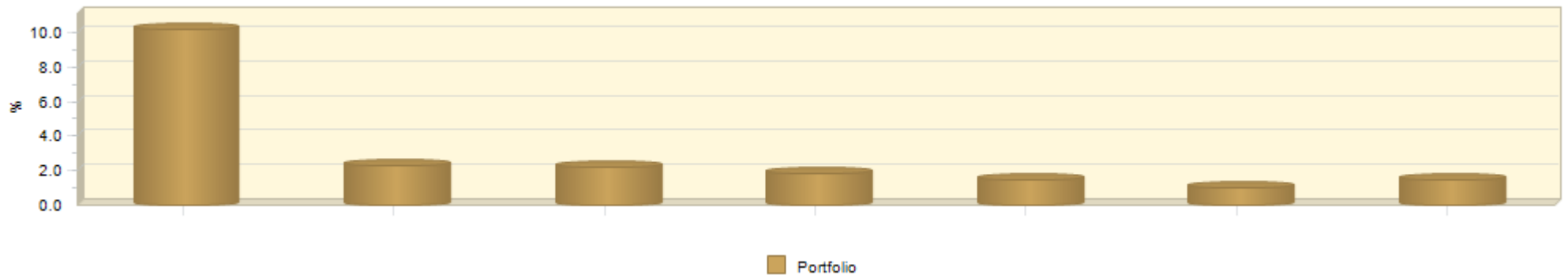
Fund Performance - Contribution Analysis

Source of Contribution - Quarter to 30 September 2016



| | UK Equities | Overseas Equities | Global Equity Units | Bonds | Property | Cash | Alternatives |
|-----------|-------------|-------------------|---------------------|-------|----------|------|--------------|
| Portfolio | 1.41 | 1.05 | 5.47 | 1.81 | 0.27 | 0.01 | 0.20 |
| Benchmark | 1.44 | 0.99 | 3.27 | 1.66 | -0.03 | | 0.02 |

Top 5 Manager Contribution - Quarter to 30 September 2016



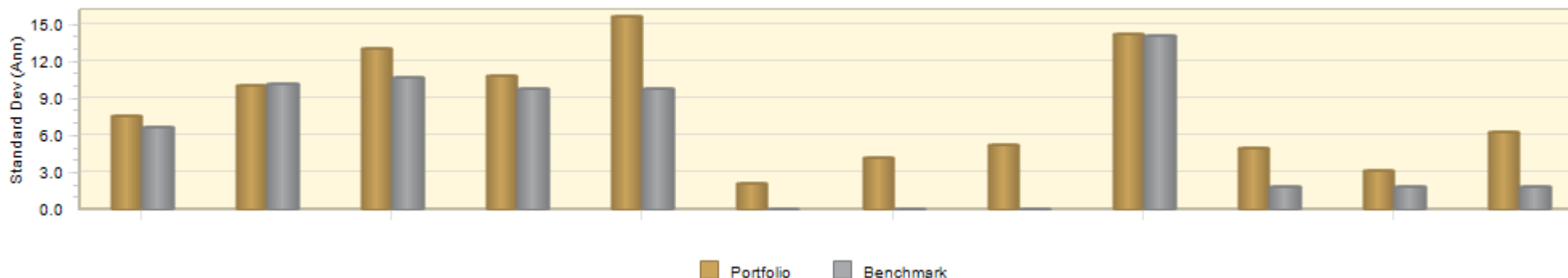
| | Total Consolidation | Baillie Gifford GA | Baillie Gifford LTGG | M&G | Standard Life | Fidelity | Remaining Managers |
|-----------|---------------------|--------------------|----------------------|------|---------------|----------|--------------------|
| Portfolio | 10.22 | 2.32 | 2.16 | 1.81 | 1.45 | 1.01 | 1.47 |

Risk Profile



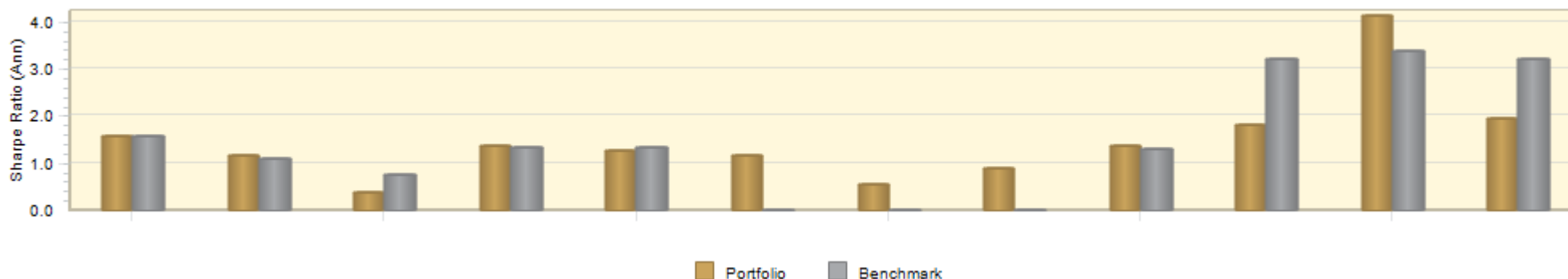
Risk Profile - Historic Risk

Standard Deviation - 3 Years (Ann) to 30 September 2016



| | Total Consolidation | Fidelity | Standard Life | Baillie Gifford GA | Baillie Gifford LTGG | ECM Asset Management | Standard Life Divers Growth | Newton Diversified | M&G | LGIM Property | Hermes | Threadneedle |
|-----------|---------------------|----------|---------------|--------------------|----------------------|----------------------|-----------------------------|--------------------|-------|---------------|--------|--------------|
| Portfolio | 7.48 | 10.03 | 13.06 | 10.79 | 15.57 | 2.04 | 4.12 | 5.25 | 14.18 | 4.93 | 3.11 | 6.27 |
| Benchmark | 6.60 | 10.18 | 10.62 | 9.81 | 9.81 | 0.01 | 0.01 | 0.01 | 14.04 | 1.83 | 1.86 | 1.83 |

Sharpe Ratio - 3 Years (Ann) to 30 September 2016

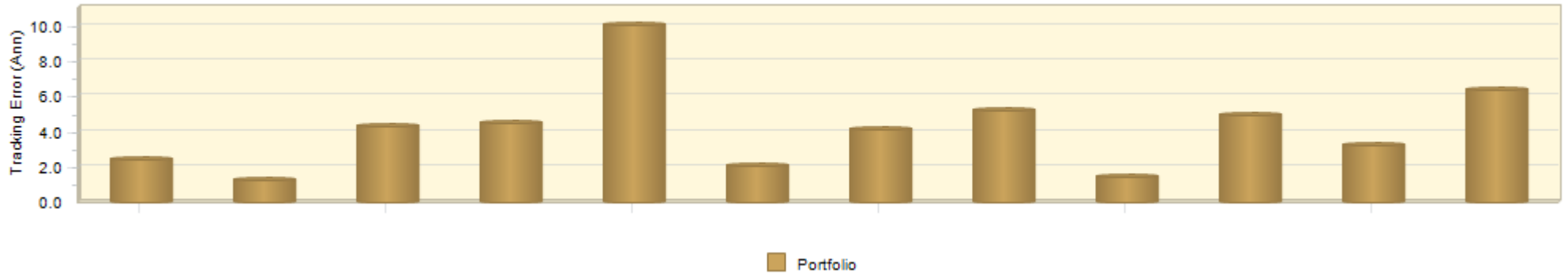


| | Total Consolidation | Fidelity | Standard Life | Baillie Gifford GA | Baillie Gifford LTGG | ECM Asset Management | Standard Life Divers Growth | Newton Diversified | M&G | LGIM Property | Hermes | Threadneedle |
|-----------|---------------------|----------|---------------|--------------------|----------------------|----------------------|-----------------------------|--------------------|------|---------------|--------|--------------|
| Portfolio | 1.57 | 1.17 | 0.38 | 1.35 | 1.26 | 1.16 | 0.55 | 0.88 | 1.36 | 1.81 | 4.13 | 1.95 |
| Benchmark | 1.56 | 1.09 | 0.74 | 1.33 | 1.33 | 0.00 | 0.00 | 0.00 | 1.31 | 3.20 | 3.38 | 3.20 |

Ann = Annualised

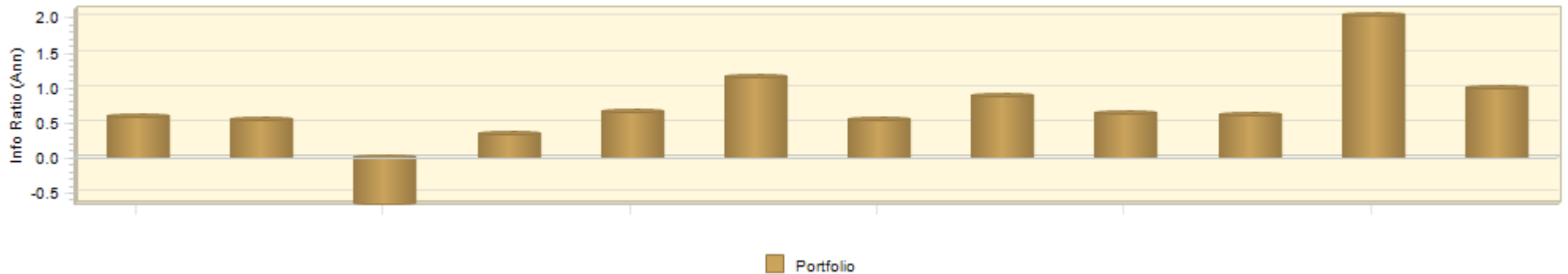
Risk Profile - Historic Risk

Tracking Error - 3 Years (Ann) to 30 September 2016



| | Total Consolidation | Fidelity | Standard Life | Baillie Gifford GA | Baillie Gifford LTGG | ECM Asset Management | Standard Life Divers Growth | Newton Diversified | M&G | LGIM Property | Hermes | Threadneedle |
|-----------|---------------------|----------|---------------|--------------------|----------------------|----------------------|-----------------------------|--------------------|------|---------------|--------|--------------|
| Portfolio | 2.39 | 1.29 | 4.30 | 4.50 | 10.07 | 2.05 | 4.12 | 5.25 | 1.40 | 4.97 | 3.24 | 6.44 |

Information Ratio - 3 Years (Ann) to 30 September 2016



| | Total Consolidation | Fidelity | Standard Life | Baillie Gifford GA | Baillie Gifford LTGG | ECM Asset Management | Standard Life Divers Growth | Newton Diversified | M&G | LGIM Property | Hermes | Threadneedle |
|-----------|---------------------|----------|---------------|--------------------|----------------------|----------------------|-----------------------------|--------------------|------|---------------|--------|--------------|
| Portfolio | 0.59 | 0.53 | -0.66 | 0.34 | 0.65 | 1.16 | 0.55 | 0.88 | 0.63 | 0.61 | 2.03 | 0.99 |

Ann = Annualised

Risk Profile - Consistency Analysis

| Manager | Active Number of Months | Number of Positive Months | Consistency Rate (%) | Benchmark Consistency (%) | Outperformance (%) |
|-----------------------------|-------------------------|---------------------------|----------------------|---------------------------|--------------------|
| Total Consolidation | 177 | 115 | 65 | 67 | 56 |
| Fidelity | 95 | 61 | 64 | 51 | 54 |
| Standard Life | 120 | 67 | 56 | 39 | 55 |
| Baillie Gifford GA | 120 | 75 | 63 | 44 | 56 |
| Amundi | 125 | 73 | 58 | | |
| Baillie Gifford LTGG | 121 | 73 | 60 | 44 | 54 |
| ECM Asset Management | 135 | 89 | 66 | 56 | 61 |
| Standard Life Divers Growth | 43 | 27 | 63 | 100 | 60 |
| Newton Diversified Growth | 43 | 24 | 56 | 100 | 56 |
| M&G | 58 | 33 | 57 | 62 | 55 |
| LGIM Property | 46 | 41 | 89 | 80 | 61 |
| Hermes | 55 | 42 | 76 | 78 | 56 |
| Threadneedle | 52 | 46 | 88 | 80 | 69 |
| Veritas | 18 | 10 | 56 | 67 | 50 |
| Dodge & Cox | 18 | 11 | 61 | 67 | 39 |

Fund Profile



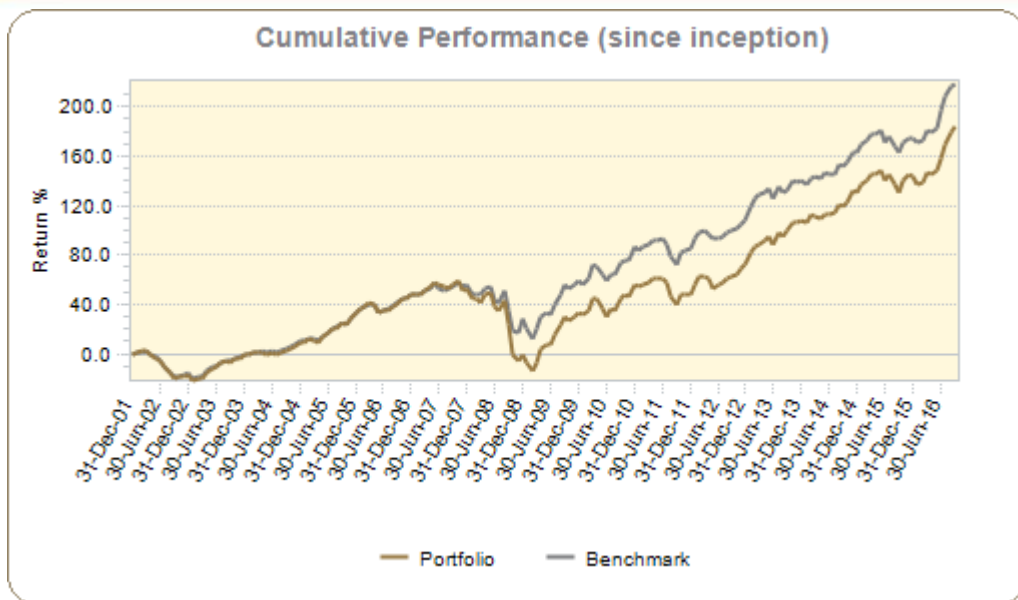
Fund Profile - Movement of Funds

| Manager Name | Market Value 30-Jun-2016 (000's) | Net Contributions (000's) | Income (000's) | Gain/Loss (000's) | Market Value 30-Sep-2016 (000's) | % Change |
|-----------------------------|----------------------------------|---------------------------|-----------------|-------------------|----------------------------------|-------------|
| Total Consolidation | 2,548,782.70 | -8,196.05 | 4,165.55 | 255,877.22 | 2,800,629.42 | 9.88 |
| Total Consolidation | 2,548,782.70 | -8,196.05 | 4,165.55 | 255,877.22 | 2,800,629.42 | 9.88 |
| Fidelity | 279,088.86 | 0.00 | 853.18 | 24,691.24 | 304,633.28 | 9.15 |
| Standard Life | 237,629.60 | 0.00 | 2,191.12 | 34,555.99 | 274,376.72 | 15.46 |
| Baillie Gifford GA | 477,294.31 | 0.00 | 0.00 | 58,871.12 | 536,165.43 | 12.33 |
| Baillie Gifford LTGG | 325,469.47 | 0.00 | 0.00 | 55,059.70 | 380,529.17 | 16.92 |
| ECM Asset Management | 130,536.27 | 0.00 | 0.00 | 2,582.43 | 133,118.70 | 1.98 |
| Standard Life Divers Growth | 135,828.55 | 0.00 | 0.00 | 684.51 | 136,513.06 | 0.50 |
| Newton Diversified Growth | 113,986.27 | 0.00 | 0.00 | 1,550.64 | 115,536.91 | 1.36 |
| M&G | 386,514.44 | -163.31 | 835.20 | 45,327.28 | 432,513.61 | 11.90 |
| LGIM Property | 57,723.74 | 0.00 | 0.00 | 1,875.67 | 59,599.41 | 3.25 |
| Hermes | 32,176.97 | -306.18 | 306.18 | -251.20 | 31,925.77 | -0.78 |
| Threadneedle | 144,761.80 | 0.00 | 0.00 | 6,177.57 | 150,939.37 | 4.27 |
| Cash Account | -13,880.72 | -7,726.55 | -20.14 | -14.31 | -21,641.73 | 55.91 |
| Veritas | 127,712.55 | 0.00 | 0.00 | 10,026.86 | 137,739.41 | 7.85 |
| Dodge & Cox | 113,859.83 | 0.00 | 0.00 | 14,739.71 | 128,599.54 | 12.95 |

Manager Analysis



Manager Analysis - Total Consolidation



Inception Date: 31 Jan 2002

| Portfolio Size and Mandate | |
|-----------------------------|--------------------------|
| Portfolio Size (GBP) | Portfolio Mandate |
| 2,800,629,420 | Total Plan |

| Allocation - 30 September 2016 | | | | | | | |
|--------------------------------|----------------|----------------------|------------------|-------|----------|------|-------------|
| | UK Equities | Overseas Equities | Global Equity | Bonds | Property | Cash | Alternative |
| Portfolio | 9.02 | 11.11 | 42.24 | 14.89 | 8.66 | 0.33 | 13.75 |
| Benchmark | 12.60 | 10.80 | 38.60 | 14.10 | 7.20 | | 16.70 |

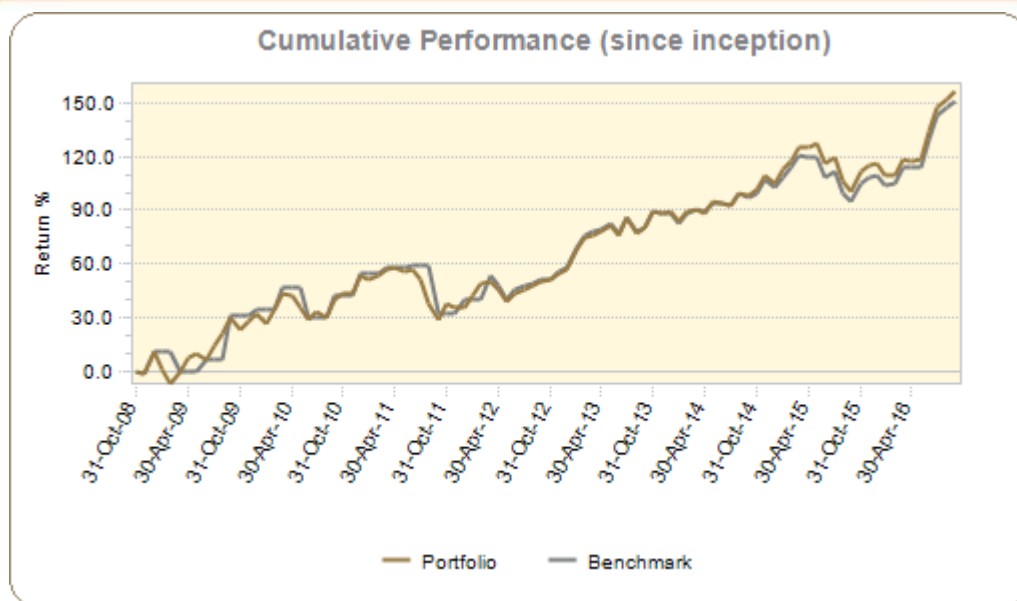
| Periodic Performance | | | | | | |
|----------------------|---------|------------------------|--------|------------------|------------------|--------------------|
| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | 5 Years (Ann) | Since Inception |
| Portfolio | 10.2 | 15.4 | 23.0 | 12.6 | 15.4 | 7.3 |
| Benchmark | 7.3 | 13.4 | 21.0 | 11.1 | 13.1 | 8.2 |

Summary - 3 Months Ending 30 September 2016

The fund's relative performance of the Quarter and 1 Year was 2.9% and 2.0% respectively.

| Risk Profile - 3 Years (Ann) to 30 September 2016 | | | | |
|---|-----------------------|--------------|----------------|-------------------|
| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
| Portfolio | 7.5 | 1.6 | 2.4 | 0.6 |
| Benchmark | 6.6 | 1.6 | | |

Manager Analysis - Fidelity



Inception Date: 30 Nov 2008

| Portfolio Size and Mandate | |
|-----------------------------|--------------------------|
| Portfolio Size (GBP) | Portfolio Mandate |
| 304,633,285 | Global Equities |

| Allocation - 30 September 2016 | | | |
|--------------------------------|--------------------|--------------------------|-------------|
| | UK Equities | Overseas Equities | Cash |
| Portfolio | 0.19 | 98.01 | 1.80 |
| Benchmark | | | |

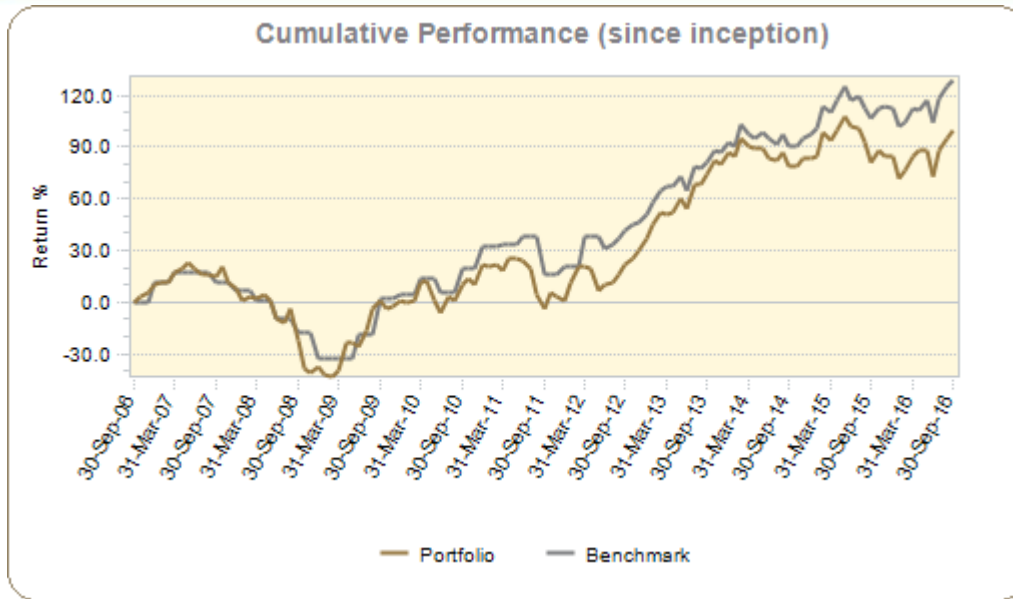
| Periodic Performance | | | | | | |
|----------------------|----------------|----------------------------|---------------|----------------------|----------------------|------------------------|
| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | 5 Years (Ann) | Since Inception |
| Portfolio | 9.2 | 17.2 | 27.6 | 12.4 | 14.8 | 12.6 |
| Benchmark | 9.2 | 17.3 | 29.2 | 11.6 | 13.7 | 12.4 |

Summary - 3 Months Ending 30 September 2016

The manager's relative performance of the Quarter and 1 Year was 0.0% and -1.6% respectively.

| Risk Profile - 3 Years (Ann) to 30 September 2016 | | | | |
|---|---------------------------|---------------------|-----------------------|--------------------------|
| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
| Portfolio | 10.0 | 1.2 | 1.3 | 0.5 |
| Benchmark | 10.2 | 1.1 | | |

Manager Analysis - Standard Life



Inception Date: 31 Oct 2006

| Portfolio Size and Mandate | |
|-----------------------------|--------------------------|
| Portfolio Size (GBP) | Portfolio Mandate |
| 274,376,718 | UK Equities |

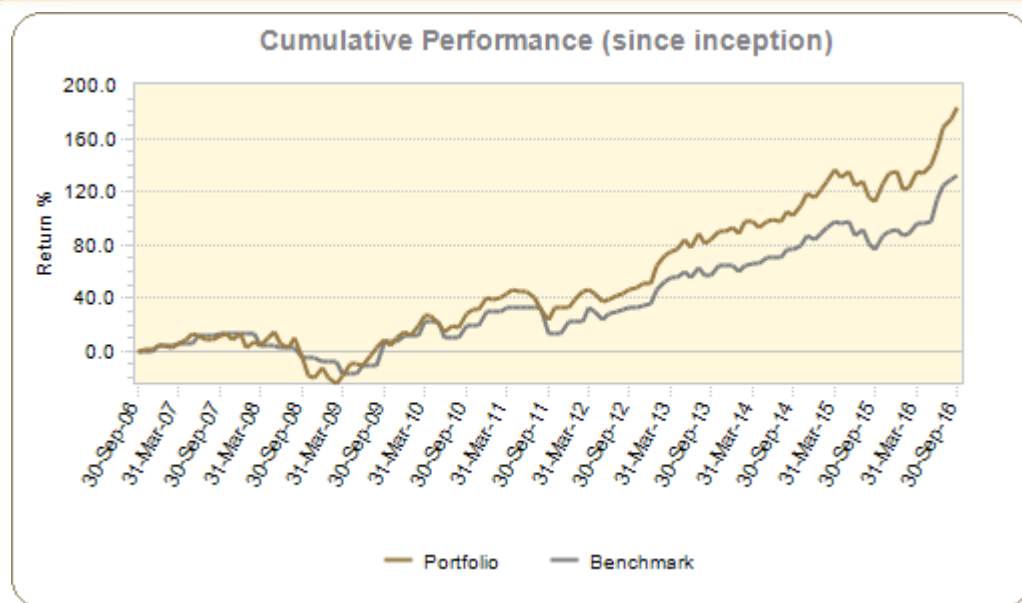
| Allocation - 30 September 2016 | | | |
|--------------------------------|--------------------|--------------------------|-------------|
| | UK Equities | Overseas Equities | Cash |
| Portfolio | 91.87 | 4.58 | 3.55 |
| Benchmark | 100.00 | | |

| Periodic Performance | | | | | | |
|----------------------|----------------|----------------------------|---------------|----------------------|----------------------|------------------------|
| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | 5 Years (Ann) | Since Inception |
| Portfolio | 15.5 | 8.2 | 10.4 | 4.7 | 15.8 | 7.2 |
| Benchmark | 11.5 | 7.6 | 10.7 | 8.1 | 14.6 | 8.6 |

Summary - 3 Months Ending 30 September 2016
 The manager's relative performance of the Quarter and 1 Year was 4.0% and -0.3% respectively.

| Risk Profile - 3 Years (Ann) to 30 September 2016 | | | | |
|---|---------------------------|---------------------|-----------------------|--------------------------|
| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
| Portfolio | 13.1 | 0.4 | 4.3 | -0.7 |
| Benchmark | 10.6 | 0.7 | | |

Manager Analysis - Baillie Gifford GA



Inception Date: 31 Oct 2006

| Periodic Performance | | | | | | |
|----------------------|---------|---------------------|--------|---------------|---------------|-----------------|
| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | 5 Years (Ann) | Since Inception |
| Portfolio | 12.3 | 20.2 | 33.5 | 15.5 | 18.1 | 11.0 |
| Benchmark | 8.5 | 18.0 | 31.3 | 13.9 | 15.4 | 8.8 |

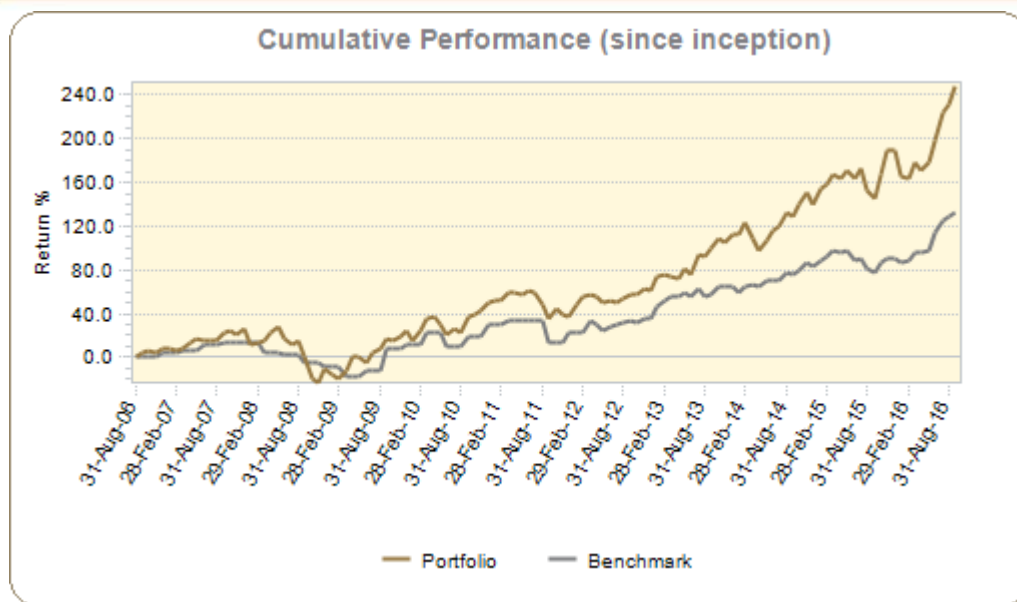
| Risk Profile - 3 Years (Ann) to 30 September 2016 | | | | |
|---|--------------------|--------------|----------------|-------------------|
| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
| Portfolio | 10.8 | 1.4 | 4.5 | 0.3 |
| Benchmark | 9.8 | 1.3 | | |

| Portfolio Size and Mandate | |
|----------------------------|-----------------|
| Portfolio Size (GBP) | 536,165,434 |
| Portfolio Mandate | Global Equities |

| Allocation - 30 September 2016 | | |
|--------------------------------|---------------------|------|
| | Global Equity Units | Cash |
| Portfolio | 100.00 | 0.00 |
| Benchmark | 100.00 | |

Summary - 3 Months Ending 30 September 2016
 The manager's relative performance of the Quarter and 1 Year was 3.8% and 2.2% respectively.

Manager Analysis - Baillie Gifford LTGG



Inception Date: 30 Sep 2006

| Portfolio Size and Mandate | |
|-----------------------------|--------------------------|
| Portfolio Size (GBP) | Portfolio Mandate |
| 380,529,166 | Global Equities |

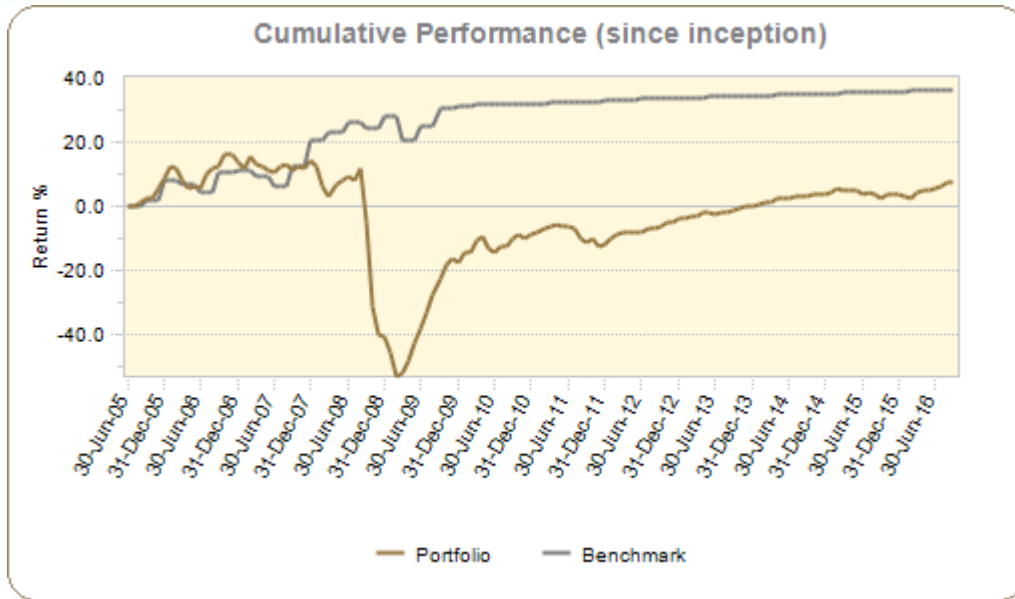
| Allocation - 30 September 2016 | |
|--------------------------------|----------------------------|
| | Global Equity Units |
| Portfolio | 100.00 |
| Benchmark | 100.00 |

| Periodic Performance | | | | | | |
|----------------------|---------|---------------------|--------|---------------|---------------|-----------------|
| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | 5 Years (Ann) | Since Inception |
| Portfolio | 16.9 | 25.6 | 41.7 | 20.6 | 20.9 | 13.2 |
| Benchmark | 8.5 | 18.0 | 31.3 | 13.9 | 15.4 | |

Summary - 3 Months Ending 30 September 2016
 The manager's relative performance of the Quarter and 1 Year was 8.4% and 10.4% respectively.

| Risk Profile - 3 Years (Ann) to 30 September 2016 | | | | |
|---|--------------------|--------------|----------------|-------------------|
| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
| Portfolio | 15.6 | 1.3 | 10.1 | 0.7 |
| Benchmark | 9.8 | 1.3 | | |

Manager Analysis - ECM Asset Management



Inception Date: 31 Jul 2005

| Periodic Performance | | | | | | |
|----------------------|---------|---------------------|--------|---------------|---------------|-----------------|
| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | 5 Years (Ann) | Since Inception |
| Portfolio | 2.0 | 2.9 | 4.9 | 2.9 | 4.0 | 0.6 |
| Benchmark | 0.1 | 0.2 | 0.5 | 0.5 | 0.5 | 2.8 |

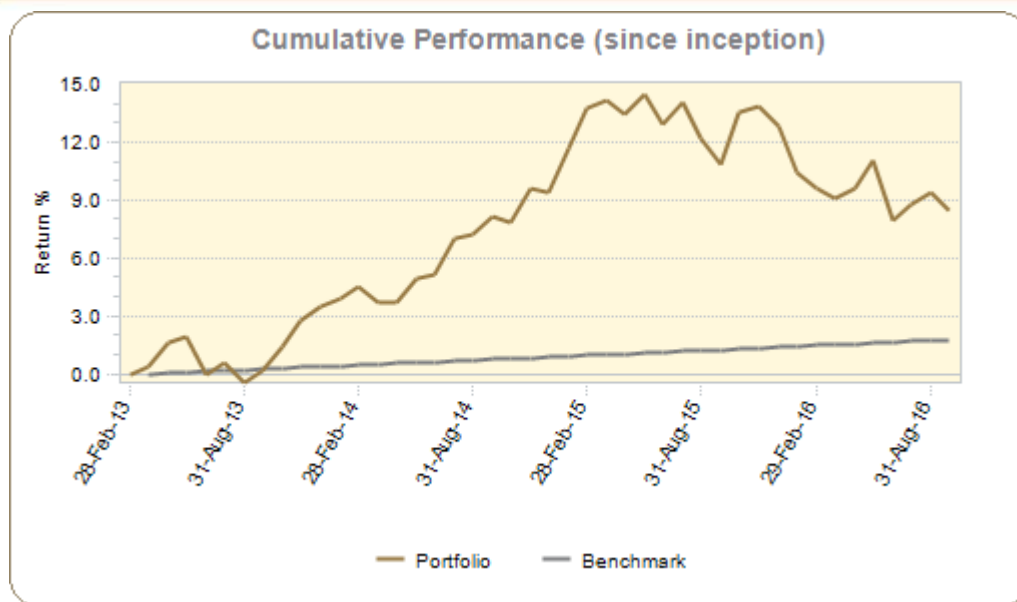
| Risk Profile - 3 Years (Ann) to 30 September 2016 | | | | |
|---|--------------------|--------------|----------------|-------------------|
| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
| Portfolio | 2.0 | 1.2 | 2.0 | 1.2 |
| Benchmark | 0.0 | 0.0 | | |

| Portfolio Size and Mandate | |
|----------------------------|--------------|
| Portfolio Size (GBP) | 133,118,700 |
| Portfolio Mandate | Alternatives |

| Allocation - 30 September 2016 | |
|--------------------------------|--------------|
| | Alternatives |
| Portfolio | 100.00 |
| Benchmark | 100.00 |

Summary - 3 Months Ending 30 September 2016
 The manager's relative performance of the Quarter and 1 Year was 1.9% and 4.4% respectively.

Manager Analysis - Standard Life Divers Growth



Inception Date: 31 Mar 2013

| Portfolio Size and Mandate | |
|-----------------------------|--------------------------|
| Portfolio Size (GBP) | Portfolio Mandate |
| 136,513,060 | Diversified Growth |

| Allocation - 30 September 2016 | |
|--------------------------------|---------------------|
| | Alternatives |
| Portfolio | 100.00 |
| Benchmark | 100.00 |

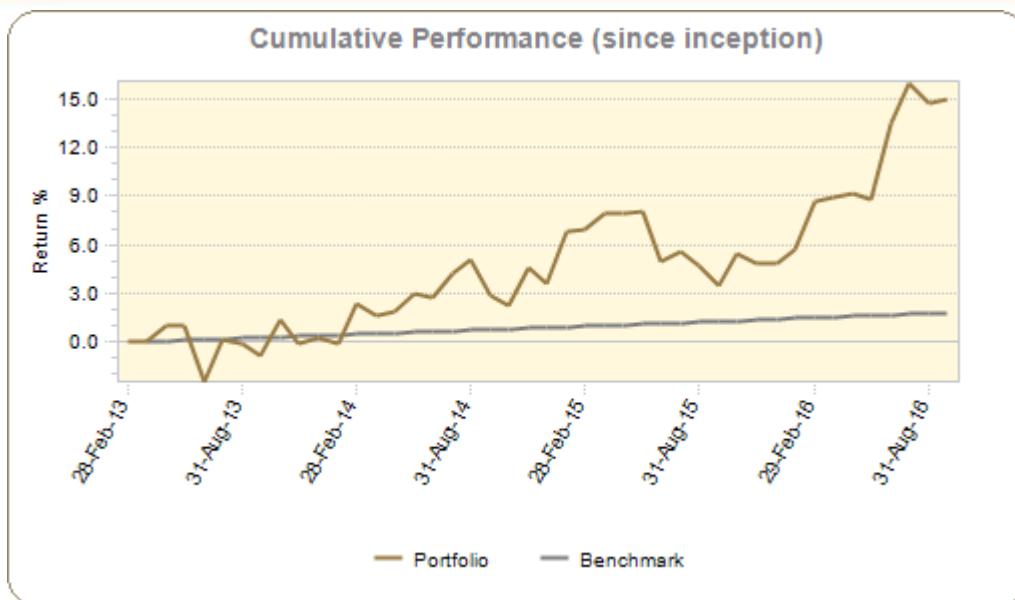
| Periodic Performance | | | | | |
|----------------------|---------|---------------------|--------|---------------|-----------------------|
| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | Since Inception (Ann) |
| Portfolio | 0.5 | -0.6 | -2.2 | 2.7 | 2.3 |
| Benchmark | 0.1 | 0.2 | 0.5 | 0.5 | 0.5 |

Summary - 3 Months Ending 30 September 2016

The manager's relative performance of the Quarter and 1 Year was and 0.4% and -2.7% respectively.

| Risk Profile - 3 Years (Ann) to 30 September 2016 | | | | |
|---|--------------------|--------------|----------------|-------------------|
| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
| Portfolio | 4.1 | 0.5 | 4.1 | 0.5 |
| Benchmark | 0.0 | 0.0 | | |

Manager Analysis - Newton Diversified Growth



Inception Date: 31 Mar 2013

| Periodic Performance | | | | | |
|----------------------|---------|---------------------|--------|---------------|-----------------------|
| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | Since Inception (Ann) |
| Portfolio | 1.4 | 5.6 | 11.3 | 5.1 | 4.0 |
| Benchmark | 0.1 | 0.2 | 0.5 | 0.5 | 0.5 |

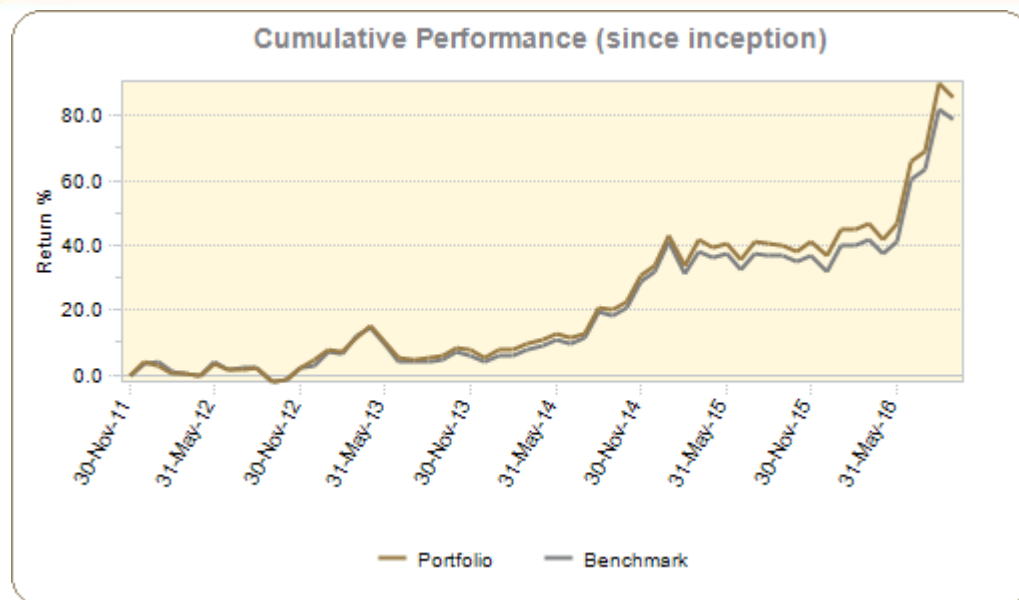
| Risk Profile - 3 Years (Ann) to 30 September 2016 | | | | |
|---|--------------------|--------------|----------------|-------------------|
| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
| Portfolio | 5.3 | 0.9 | 5.3 | 0.9 |
| Benchmark | 0.0 | 0.0 | | |

| Portfolio Size and Mandate | |
|-----------------------------|--------------------------|
| Portfolio Size (GBP) | Portfolio Mandate |
| 115,536,913 | Diversified Growth |

| Allocation - 30 September 2016 | |
|--------------------------------|---------------------|
| | Alternatives |
| Portfolio | 100.00 |
| Benchmark | 100.00 |

Summary - 3 Months Ending 30 September 2016
 The manager's relative performance of the Quarter and 1 Year was 1.3% and 10.8% respectively.

Manager Analysis - M&G



Inception Date: 31 Dec 2011

| Portfolio Size and Mandate | |
|-----------------------------|--------------------------|
| Portfolio Size (GBP) | Portfolio Mandate |
| 432,513,613 | Global Bonds |

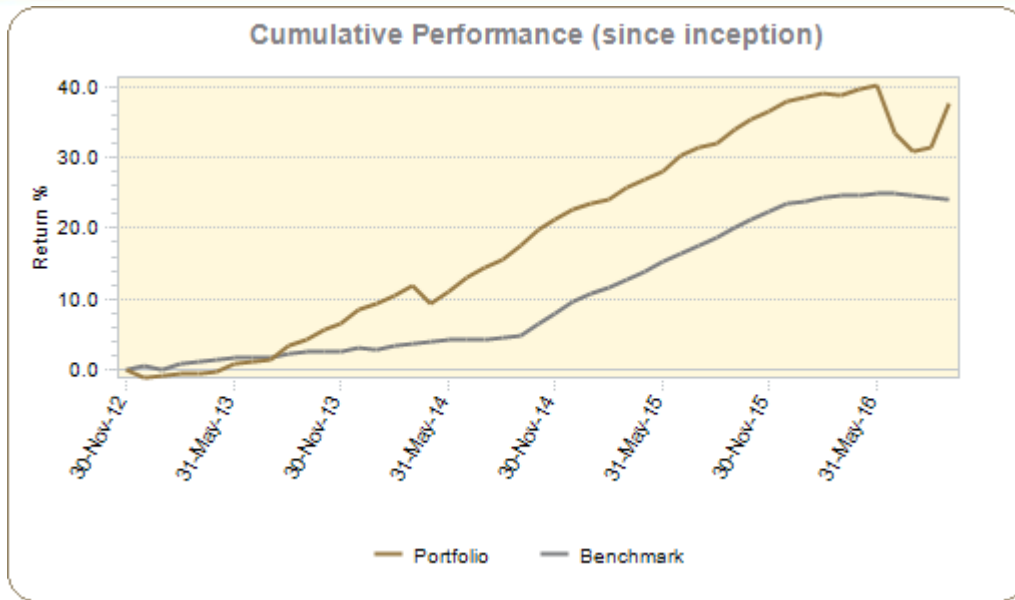
| Allocation - 30 September 2016 | | |
|--------------------------------|--------------|-------------|
| | Bonds | Cash |
| Portfolio | 96.41 | 3.59 |
| Benchmark | | |

| Periodic Performance | | | | | |
|----------------------|----------------|----------------------------|---------------|----------------------|------------------------------|
| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | Since Inception (Ann) |
| Portfolio | 11.9 | 26.4 | 32.5 | 20.5 | 13.7 |
| Benchmark | 11.6 | 26.3 | 31.1 | 19.5 | 12.8 |

Summary - 3 Months Ending 30 September 2016
 The manager's relative performance of the Quarter and 1 Year was 0.3% and 1.4% respectively.

| Risk Profile - 3 Years (Ann) to 30 September 2016 | | | | |
|---|---------------------------|---------------------|-----------------------|--------------------------|
| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
| Portfolio | 14.2 | 1.4 | 1.4 | 0.6 |
| Benchmark | 14.0 | 1.3 | | |

Manager Analysis - LGIM Property



Inception Date: 31 Dec 2012

| Portfolio Size and Mandate | |
|-----------------------------|--------------------------|
| Portfolio Size (GBP) | Portfolio Mandate |
| 59,599,412 | Property |

| Allocation - 30 September 2016 | |
|--------------------------------|-----------------|
| | Property |
| Portfolio | 100.00 |
| Benchmark | 100.00 |

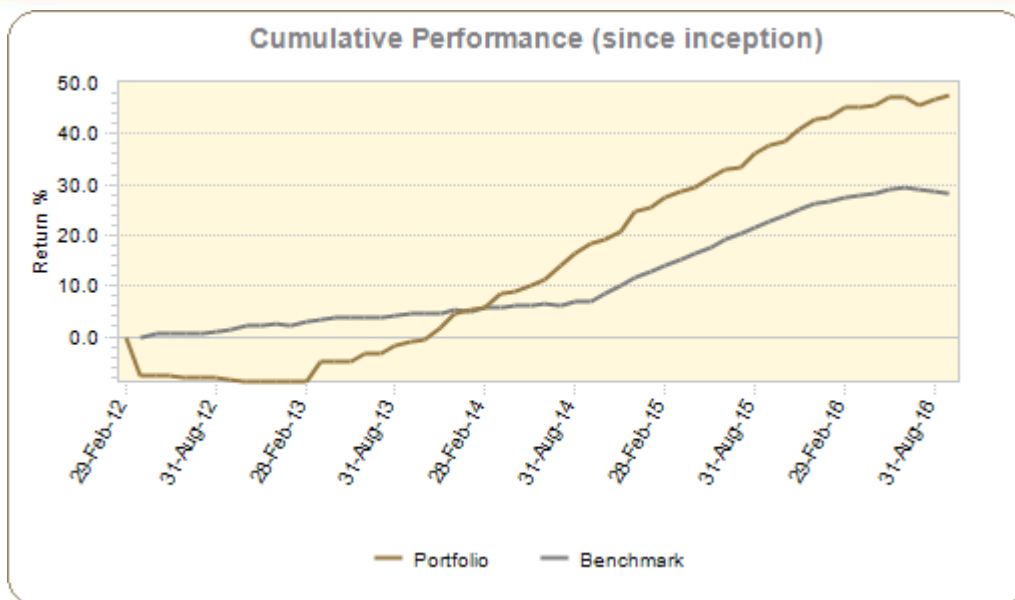
| Periodic Performance | | | | | |
|----------------------|---------|---------------------|--------|---------------|-----------------------|
| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | Since Inception (Ann) |
| Portfolio | 3.2 | -0.7 | 2.9 | 9.7 | 8.7 |
| Benchmark | -0.7 | -0.6 | 3.4 | 6.5 | 5.8 |

Summary - 3 Months Ending 30 September 2016

The manager's relative performance of the Quarter and 1 year was 3.9% and -0.5% respectively.

| Risk Profile - 3 Years (Ann) to 30 September 2016 | | | | |
|---|--------------------|--------------|----------------|-------------------|
| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
| Portfolio | 4.9 | 1.8 | 5.0 | 0.6 |
| Benchmark | 1.8 | 3.2 | | |

Manager Analysis - Hermes



Inception Date: 31 Mar 2012

| Portfolio Size and Mandate | |
|-----------------------------|--------------------------|
| Portfolio Size (GBP) | Portfolio Mandate |
| 31,925,767 | Property |

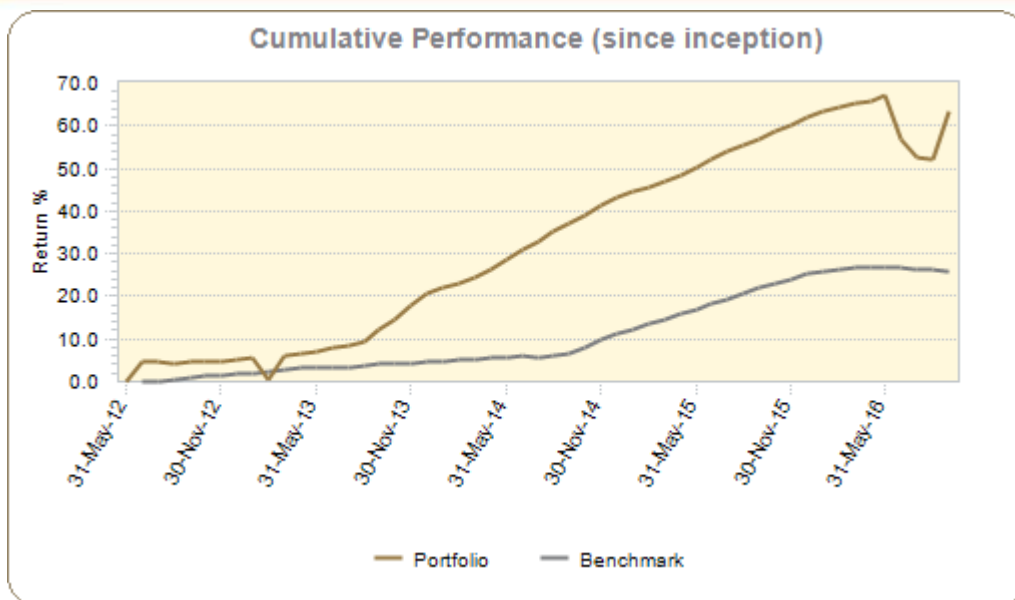
| Allocation - 30 September 2016 | |
|--------------------------------|-----------------|
| | Property |
| Portfolio | 100.00 |
| Benchmark | 100.00 |

| Periodic Performance | | | | | |
|----------------------|---------|---------------------|--------|---------------|-----------------------|
| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | Since Inception (Ann) |
| Portfolio | 0.2 | 1.5 | 7.0 | 14.2 | 8.8 |
| Benchmark | -1.1 | 0.2 | 4.3 | 7.0 | 5.7 |

Summary - 3 Months Ending 30 September 2016
 The manager's relative performance of the Quarter and 1 Year was 1.3% and 2.7% respectively.

| Risk Profile - 3 Years (Ann) to 30 September 2016 | | | | |
|---|--------------------|--------------|----------------|-------------------|
| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
| Portfolio | 3.1 | 4.1 | 3.2 | 2.0 |
| Benchmark | 1.9 | 3.4 | | |

Manager Analysis - Threadneedle



Inception Date: 30 Jun 2012

| Periodic Performance | | | | | |
|----------------------|---------|---------------------|--------|---------------|-----------------------|
| | Quarter | Fiscal Year To Date | 1 Year | 3 Years (Ann) | Since Inception (Ann) |
| Portfolio | 4.3 | -1.2 | 4.0 | 13.3 | 12.0 |
| Benchmark | -0.7 | -0.6 | 3.4 | 6.5 | 5.6 |

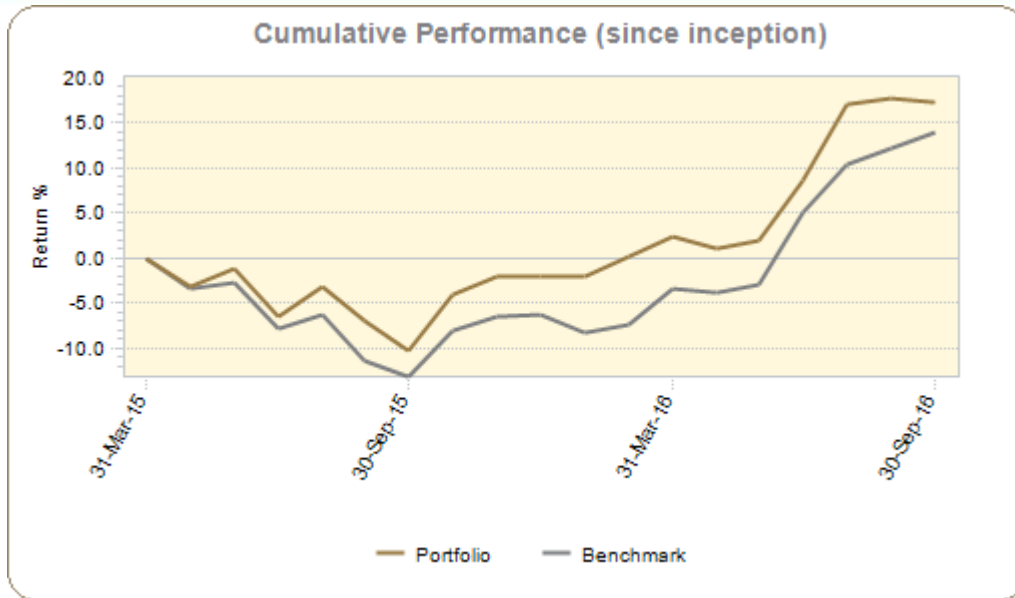
| Risk Profile - 3 Years (Ann) to 30 September 2016 | | | | |
|---|--------------------|--------------|----------------|-------------------|
| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
| Portfolio | 6.3 | 2.0 | 6.4 | 1.0 |
| Benchmark | 1.8 | 3.2 | | |

| Portfolio Size and Mandate | |
|----------------------------|-------------|
| Portfolio Size (GBP) | 150,939,372 |
| Portfolio Mandate | Property |

| Allocation - 30 September 2016 | |
|--------------------------------|----------|
| | Property |
| Portfolio | 100.00 |
| Benchmark | 100.00 |

Summary - 3 Months Ending 30 September 2016
 The manager's relative performance of the Quarter and 1 Year was 5.0% and 0.6% respectively.

Manager Analysis - Veritas



Inception Date: 30 Apr 2015

| Periodic Performance | | | | |
|----------------------|---------|---------------------|--------|-----------------------|
| | Quarter | Fiscal Year To Date | 1 Year | Since Inception (Ann) |
| Portfolio | 7.9 | 14.4 | 30.6 | 11.2 |
| Benchmark | 8.5 | 18.0 | 31.3 | 9.1 |

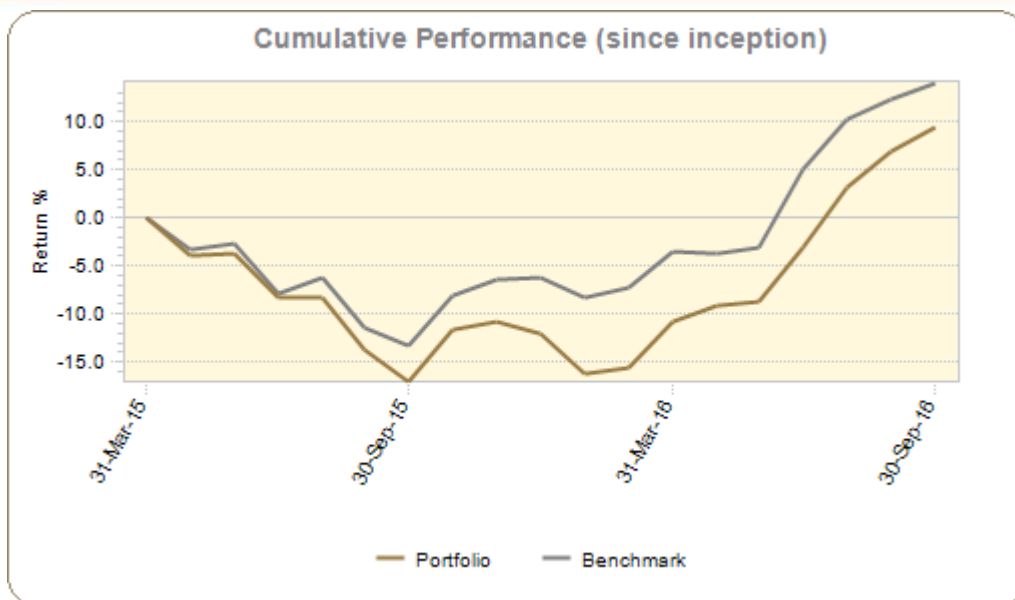
| Risk Profile - 3 Years (Ann) to 30 September 2016 | | | | |
|---|--------------------|--------------|----------------|-------------------|
| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
| Portfolio | | | | |
| Benchmark | | | | |

| Portfolio Size and Mandate | |
|----------------------------|-----------------|
| Portfolio Size (GBP) | 137,739,412 |
| Portfolio Mandate | Global Equities |

| Allocation - 30 September 2016 | |
|--------------------------------|---------------------|
| | Global Equity Units |
| Portfolio | 100.00 |
| Benchmark | 100.00 |

Summary - 3 Months Ending 30 September 2016
 The manager's relative performance of the Quarter and 1 Year was -0.6% and -0.7% respectively.

Manager Analysis - Dodge & Cox



Inception Date: 30 Apr 2015

| Portfolio Size and Mandate | |
|-----------------------------|--------------------------|
| Portfolio Size (GBP) | Portfolio Mandate |
| 128,599,543 | Global Equities |

| Allocation - 30 September 2016 | |
|--------------------------------|----------------------------|
| | Global Equity Units |
| Portfolio | 100.00 |
| Benchmark | 100.00 |

| Periodic Performance | | | | |
|----------------------|---------|---------------------|--------|-----------------------|
| | Quarter | Fiscal Year To Date | 1 Year | Since Inception (Ann) |
| Portfolio | 12.9 | 22.8 | 32.0 | 6.2 |
| Benchmark | 8.5 | 18.0 | 31.3 | 9.1 |

Summary - 3 Months Ending 30 September 2016
 The manager's relative performance of the Quarter and 1 Year was 4.4% and 0.7% respectively.

| Risk Profile - 3 Years (Ann) to 30 September 2016 | | | | |
|---|--------------------|--------------|----------------|-------------------|
| | Standard Deviation | Sharpe Ratio | Tracking Error | Information Ratio |
| Portfolio | | | | |
| Benchmark | | | | |

Appendix



Appendix - Glossary

Risk

Standard Deviation - Standard Deviation measures the variability (or volatility) of a fund's return over a specified time period.

Tracking Error - Tracking Error measures the variability of a fund's returns relative to its benchmark over a time period.

Information Ratio - Information Ratio is a measure of performance adjusted for the level of (active) risk.

Sharpe Ratio - Sharpe Ratio relates a portfolio's reward (determined as the portfolio's return minus risk free return) to the portfolio's variability (as measured by its standard deviation).

Active Number of months - Number of complete months of performance

Number of Positive Months - number of complete months the portfolio has produced a positive return

Consistency Rate (%) - Number of Positive Months/Active Number of Months

Benchmark Consistency (%) - Number of Positive Benchmark Months/Active Number of Months

Outperformance (%) - Percentage of months the portfolio has outperformed the benchmark

Attribution

Allocation Effect - Measures the impact of decisions to allocate assets differently from the benchmark.

Selection Effect - Measures the impact of decisions of selecting securities different from those held in the benchmark.

Currency Effect - Measures the impact of deviating from the benchmark currency position.

Management Effect - Measures the combined impact of allocation, selection and currency effects. At the total level, this represents the fund's relative performance against the benchmark.

Interaction Effect - Measures the combined impact of an investment manager's selection and allocation decisions within a segment.

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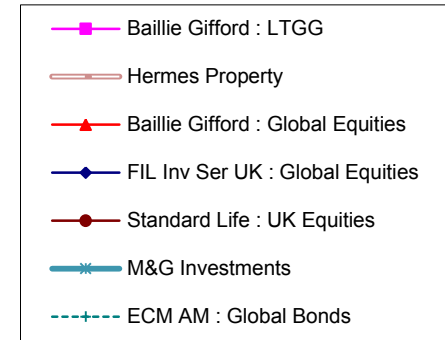
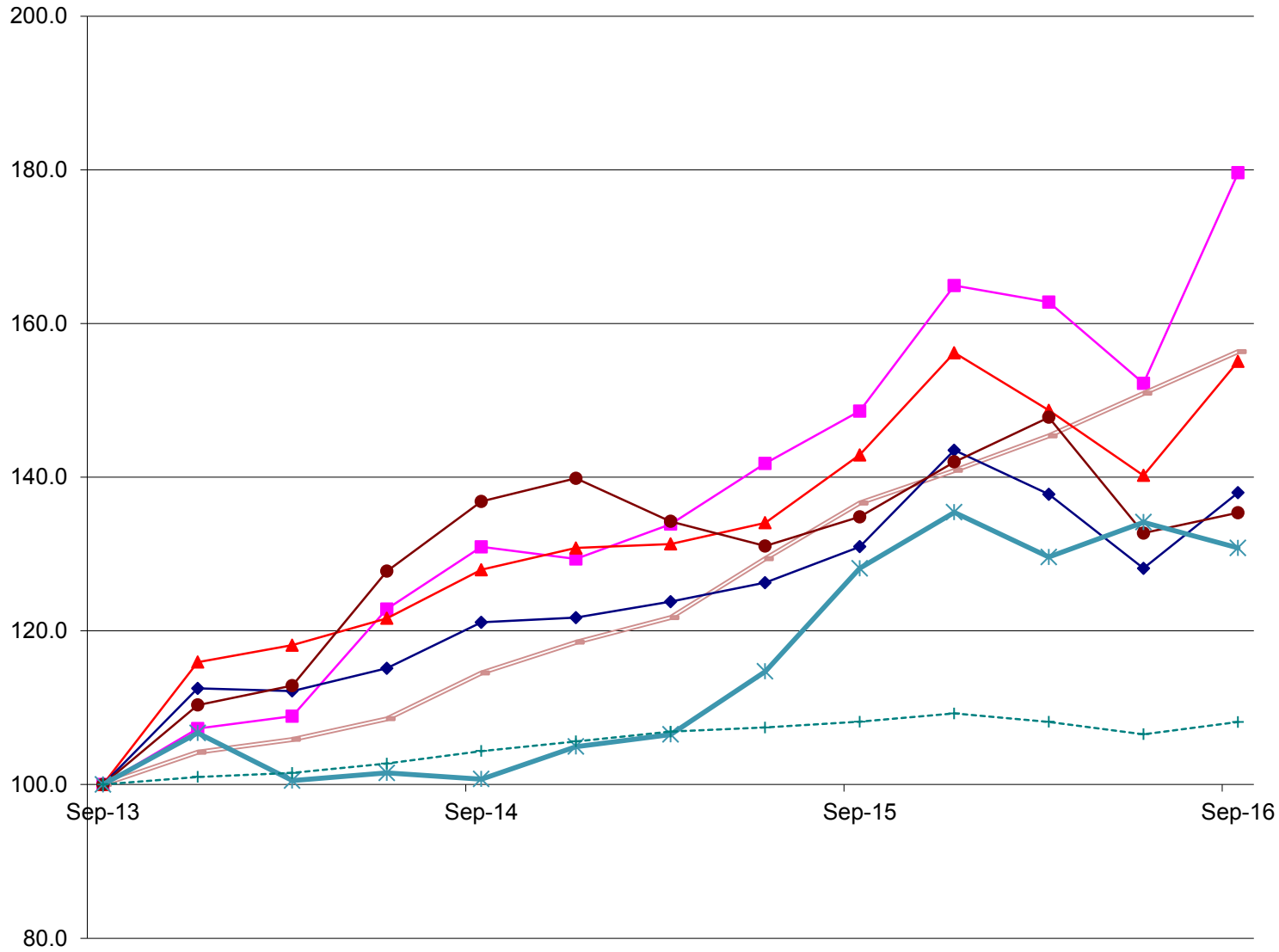
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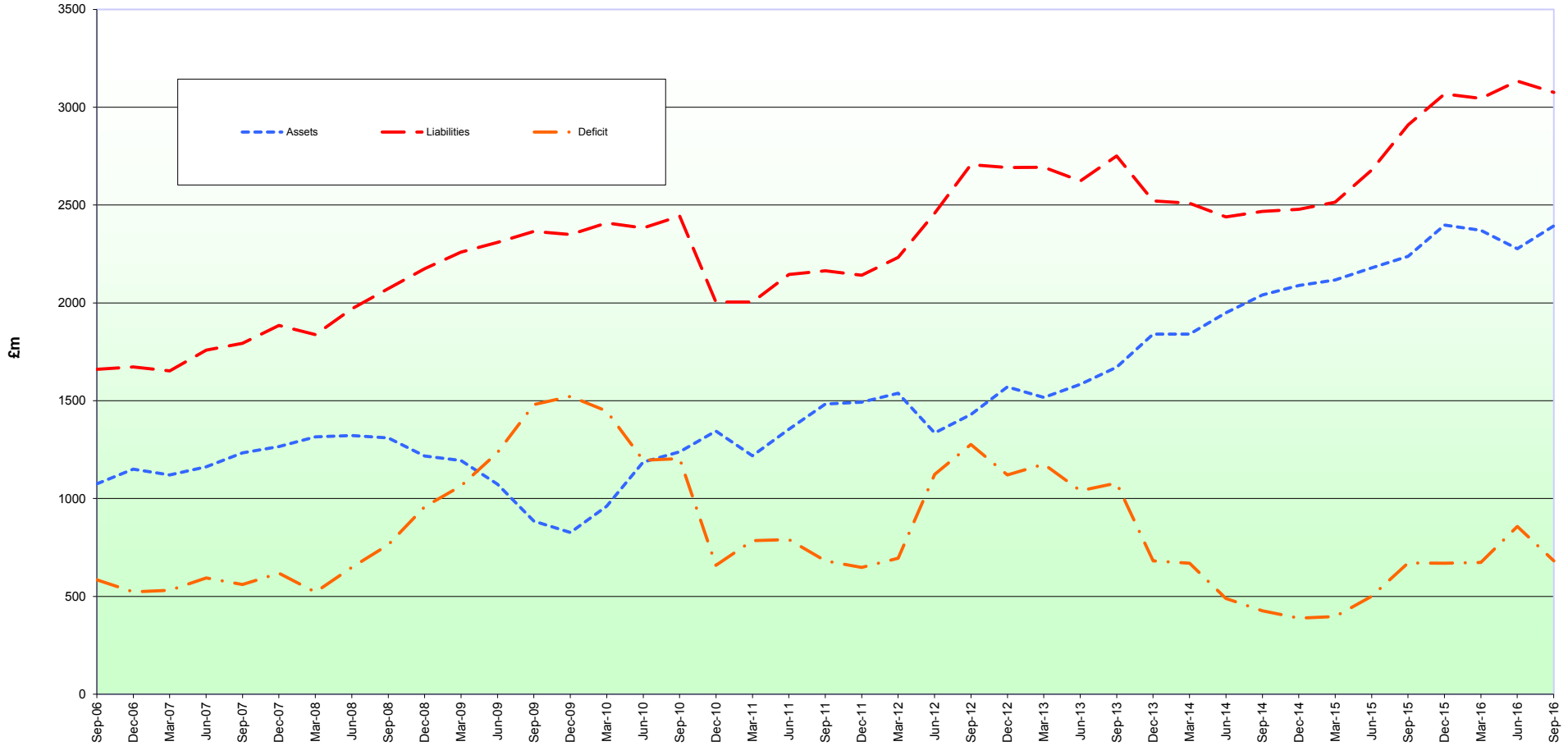
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Investment Manager Performance - cumulative absolute performance 3 years to September 2016



North Yorkshire Pension Fund Assets, Liabilities and Deficit

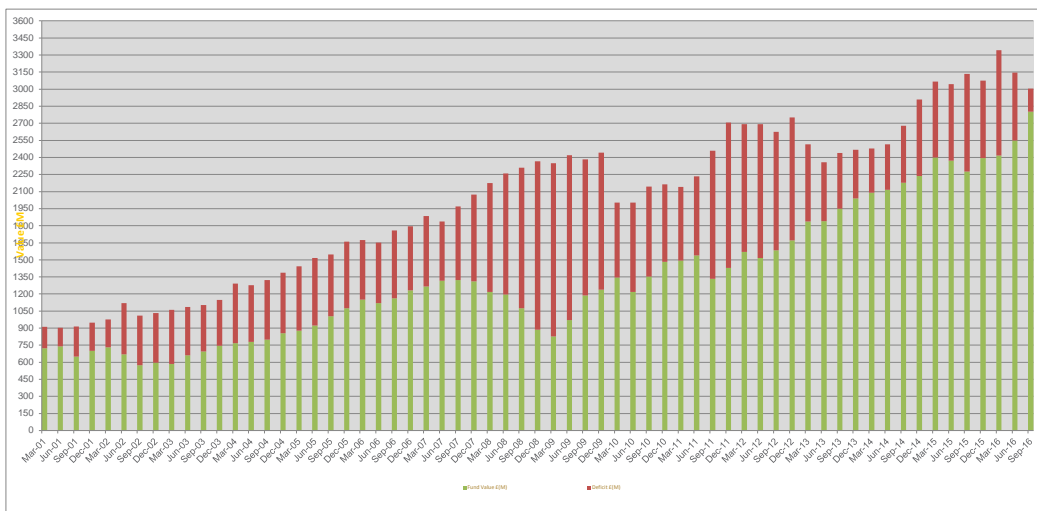


Actuarial Model of Quarterly Solvency Position

| Date | Solvency | Deficit £(M) | Fund Value £(M) | FTSE 100 |
|--------------------|----------|--------------|-----------------|----------|
| March 31, 2001 | 79% | 187 | 724 | 5,634 |
| June 30, 2001 | 82% | 162 | 740 | 5,643 |
| September 30, 2001 | 71% | 265 | 650 | 4,909 |
| December 31, 2001 | 74% | 245 | 702 | 5,217 |
| March 31, 2002 | 75% | 245 | 732 | 5,272 |
| June 30, 2002 | 60% | 450 | 670 | 4,656 |
| September 30, 2002 | 56% | 435 | 574 | 3,722 |
| December 31, 2002 | 58% | 435 | 597 | 3,940 |
| March 31, 2003 | 55% | 478 | 584 | 3,613 |
| June 30, 2003 | 61% | 423 | 662 | 4,031 |
| September 30, 2003 | 63% | 408 | 695 | 4,091 |
| December 31, 2003 | 65% | 402 | 747 | 4,477 |
| March 31, 2004 | 59% | 524 | 767 | 4,386 |
| June 30, 2004 | 61% | 498 | 775 | 4,464 |
| September 30, 2004 | 60% | 524 | 799 | 4,571 |
| December 31, 2004 | 62% | 533 | 854 | 4,814 |
| March 31, 2005 | 61% | 563 | 879 | 4,894 |
| June 30, 2005 | 61% | 592 | 924 | 5,113 |
| September 30, 2005 | 65% | 542 | 1005 | 5,478 |
| December 31, 2005 | 65% | 585 | 1075 | 5,619 |
| March 31, 2006 | 69% | 523 | 1150 | 5,965 |
| June 30, 2006 | 68% | 531 | 1121 | 5,833 |
| September 30, 2006 | 68% | 595 | 1163 | 5,961 |
| December 31, 2006 | 69% | 561 | 1233 | 6,221 |
| March 31, 2007 | 67% | 619 | 1266 | 6,308 |
| June 30, 2007 | 72% | 522 | 1316 | 6,608 |
| September 30, 2007 | 67% | 648 | 1322 | 6,467 |
| December 31, 2007 | 63% | 763 | 1310 | 6,457 |
| March 31, 2008 | 56% | 958 | 1217 | 5,702 |
| June 30, 2008 | 53% | 1064 | 1195 | 5,625 |
| September 30, 2008 | 47% | 1235 | 1074 | 4,902 |
| December 31, 2008 | 37% | 1481 | 885 | 4,434 |
| March 31, 2009 | 35% | 1522 | 827 | 3,926 |
| June 30, 2009 | 40% | 1447 | 972 | 4,249 |
| September 30, 2009 | 50% | 1196 | 1187 | 5,134 |
| December 31, 2009 | 51% | 1204 | 1239 | 5,413 |
| March 31, 2010 | 67% | 659 | 1345 | 5,680 |
| June 30, 2010 | 61% | 785 | 1219 | 4,917 |
| September 30, 2010 | 63% | 791 | 1354 | 5,549 |
| December 31, 2010 | 69% | 681 | 1483 | 5,900 |
| March 31, 2011 | 70% | 648 | 1493 | 5,909 |
| June 30, 2011 | 69% | 695 | 1538 | 5,946 |
| September 30, 2011 | 54% | 1123 | 1335 | 5,129 |
| December 31, 2011 | 53% | 1277 | 1430 | 5,572 |
| March 31, 2012 | 58% | 1121 | 1571 | 5,768 |
| June 30, 2012 | 56% | 1176 | 1517 | 5,571 |
| September 30, 2012 | 60% | 1040 | 1584 | 5,742 |
| December 31, 2012 | 61% | 1079 | 1672 | 5,898 |
| March 31, 2013 | 73% | 679 | 1836 | 6,412 |
| June 30, 2013 | 78% | 519 | 1840 | 6,215 |
| September 30, 2013 | 80% | 490 | 1949 | 6,462 |
| December 31, 2013 | 83% | 427 | 2040 | 6,749 |
| March 31, 2014 | 84% | 389 | 2089 | 6,598 |
| June 30, 2014 | 84% | 397 | 2117 | 6,744 |
| September 30, 2014 | 81% | 500 | 2179 | 6,623 |
| December 31, 2014 | 77% | 671 | 2238 | 6,566 |
| March 31, 2015 | 78% | 669 | 2399 | 6,773 |
| June 30, 2015 | 78% | 674 | 2371 | 6,521 |
| September 30, 2015 | 73% | 857 | 2277 | 6,062 |
| December 31, 2015 | 78% | 682 | 2394 | 6,242 |
| March 31, 2016 | 72% | 923 | 2418 | 6,175 |
| June 30, 2016 | 81% | 596 | 2549 | 6,504 |
| September 30, 2016 | 93% | 203 | 2801 | 6,899 |

Triennial valuation results highlighted in grey

Movement in Assets and Liabilities



NORTH YORKSHIRE COUNTY COUNCIL**PENSION FUND COMMITTEE****24 NOVEMBER 2016****EQUITY PORTFOLIO: STRATEGIC CURRENCY HEDGING****Report of the Treasurer**

Appendix 1 contains 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.

1.0 PURPOSE OF REPORT

- 1.1 To review the merits of currency hedging and consider its re-introduction for the Fund.

2.0 BACKGROUND

- 2.1 Members may remember that the Fund previously had a currency hedging programme in place, based on the overseas equity portfolio, until Q1 of 2014.

- 2.2 At that time the decision was made to remove the programme from the Fund. There were three main reasons, being:

- a reassessment of the risk reduction effect of the programme, which was relatively small when measured against the inherent risk in the Fund's allocation to equities
- the Fund's Investment Consultant, Independent Adviser and specialist currency manager, Amundi, had no strong views on the likely direction of currency exchange rate movements
- the impact the settling of currency hedging trades may have on the Fund's cashflow in the future, potentially requiring disinvestment.

3.0 RECENT CURRENCY MOVES AND NEXT STEPS

- 3.1 Since the EU referendum on 23 June 2016 sterling has fallen dramatically. Over this period Fund's portfolio has increased by 13%, principally due to the unhedged overseas equities which have benefitted from the weakening of sterling.

- 3.2 Given the recent fall in sterling our consultants, Aon Hewitt, have suggested that now is an appropriate time to consider whether to re-implement

currency hedging. Attached as **Appendix 1** is a report from Aon Hewitt where they make their recommendations.

- 3.3 In addition to the advice included in the report from Aon Hewitt, further advice will be provided at the meeting.

4.0 **RECOMMENDATION**

- 4.1 Members to decide whether to re-implement currency hedging, and if so the approach they wish to take.

GARY FIELDING
Treasurer
Central Services
County Hall
Northallerton

14 November 2016

Background documents: None

NORTH YORKSHIRE COUNTY COUNCIL**PENSION FUND COMMITTEE****24 NOVEMBER 2016****LGPS INVESTMENT REGULATIONS****Report of the Treasurer****1.0 PURPOSE OF REPORT**

- 1.1 The LGPS Management and Investment of Funds regulations provide for the management and investment of pension fund money as required by the LGPS Regulations 2013.
- 1.2 The new LGPS (Management and Investment of Funds) Regulations 2016 came into effect on 1 November 2016, bringing with them a number of changes.
- 1.3 The Committee is asked to note the changes in the regulatory requirements.

2.0 BACKGROUND

- 2.1 Since they came into force, the North Yorkshire Pension Fund has been monitoring and reporting on compliance with the LGPS Management and Investment of Funds Regulations 2009 (as amended). This followed a similar approach based on the preceding Regulations which were published in 1998.
- 2.2 The 2009 Regulations described the legislative requirements for the following:
 - the definitions of permissible investments
 - administering authority obligations to pay money to or collect money from the Pension Fund
 - restrictions on borrowing
 - Pension Fund bank account arrangements, which must be separate from the administering authority
 - the selection process, terms of appointment and monitoring of external investment managers
 - the formulation of an investment strategy for the Pension Fund, including maintaining a Statement of Investment Principles (SIP), covering:
 - the types of investments to be held

- the balance between different types of investments
 - risk, including the ways in which risks are to be measured and managed
 - the expected returns on investments
 - the realisation of investments
 - the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
 - the exercise of the rights (including voting rights) attaching to investments, if there is such a policy
 - stock lending
 - the extent to which the administering authority complies with guidance given by CLG (in relation to the Investment Principles), and, to the extent the authority does not comply, the reasons for not complying
 - the exercise of any discretion by the administering authority to increase the limits on various types of investment
 - treasury management arrangements between the administering authority and the Pension Fund
 - limits on the proportions of the Fund invested in permissible investment asset classes, and subject to additional requirements the availability of increased limits
- 2.3 Schedule 1 of the 2009 Regulations identified the 13 permissible investment categories to which limits and increased limits applied.
- 2.4 Since the 2009 Regulations were published there have been only minor amendments.

3.0 **THE LGPS MANAGEMENT AND INVESTMENT OF FUNDS REGULATIONS 2016**

- 3.1 The 2016 Regulations came into force on 1 November 2016, replacing the 2009 Regulations (as amended).
- 3.2 The new Regulations introduce a mixture of new legislative requirements and updates to the 2009 regulatory requirements. Some of the 2009 requirements have been dropped altogether. Overall, the new Regulations are less prescriptive.

- 3.3 The new Regulations require the administering authority to maintain and publish an Investment Strategy Statement (ISS). A copy of the guidance on preparing and maintaining an Investment Strategy Statement is attached to this report (Appendix 1).
- 3.4 The requirement to maintain and publish the ISS replaces the previous requirement to maintain a SIP. The purpose of both documents is actually very similar, being the provision of evidence that administering authorities have considered the suitability of their Fund's investment strategy and the approach to implementing that strategy. The ISS should describe the Fund's investments and investment strategy and must include:
- a requirement to invest money in a wide variety of investments
 - an assessment of the suitability of investments held
 - the approach to risk
 - the approach to pooling investments
 - the policy and approach to social, environmental and corporate governance
 - the policy on the exercise of rights (including voting rights) attaching to investment
- 3.5 The ISS must also set out the maximum percentage of the Fund that it will invest in particular investments or asset classes. This will replace Schedule 1 of the 2009 regulations as noted above.
- 3.6 The need to take proper advice in addressing these issues is strongly emphasised.
- 3.7 The first ISS must be published by 1 April 2017, therefore this document will be presented for approval to the Committee at its meetings on 23 February 2017. Until that date, the Fund will maintain the SIP.
- 3.8 The new Regulations also introduce new powers for the Secretary of State to make a direction if he is satisfied that an administering authority is failing to act in accordance with the legislation and guidance. The power of direction can be used to:
- require changes to the investment strategy
 - require investment in specific assets or asset classes
 - transfer the investment functions to the Secretary of State or a person nominated by the Secretary of State
 - require the administering authority to comply with any instructions

- 3.9 This regulation essentially allows the Secretary of State to intervene in whatever manner is deemed necessary to address a perceived problem.
- 3.10 Before any direction can be issued, the Secretary of State must consult with the administering authority and take due consideration of reports and representations. Although regulation does appear quite draconian, it provides powers to the Secretary of State, where under previous regulations there were none. Its use is likely to be a last resort.
- 3.11 Some of the regulations are essentially an updated version of regulations from 2009, relating them to the current investment environment. They also reflect amendments to definitions, and a general improvement in the clarity of wording. They include:
- the permissible investments definitions, particularly in relation to derivative and insurance contracts
 - administering authority obligations to pay money to or collect money from the Pension Fund
 - restrictions on borrowing
 - Pension Fund bank account arrangements
 - the use of external investment managers
- 3.12 With effect from the date of publication of the first ISS, prescriptive investment limits on asset classes have been dropped from the Regulations, with one exception. No more than 5% of Pension Fund money can be invested in entities connected to the administering authority.

4.0 **RECOMMENDATION**

- 4.1 The Committee is recommended to note the report.

GARY FIELDING
Treasurer
Central Services
County Hall
Northallerton

14 November 2016

Background documents: None



Department for
Communities and
Local Government

Local Government Pension Scheme

Guidance on Preparing and Maintaining an Investment
Strategy Statement



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Foreword

This guidance has been prepared to assist administering authorities in the local government pension scheme in England and Wales with the formulation, publication and maintenance of their Investment Strategy Statement.

New investment regulations to be introduced later this year will include a requirement for administering authorities to publish new Investment Strategy Statements by 1st April 2017 in accordance with the guidance set out below.

Administering authorities will be required to act in accordance with the provisions in this guidance when Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 comes into force.

Part 1

Introduction and background

This guidance has been prepared to assist administering authorities in the formulation, publication and maintenance of their Investment Strategy Statement required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Unless otherwise stated, references to regulations are to the 2016 Regulations.

An administering authority's duty to prepare, maintain and review their Funding Strategy Statement under Regulation 58 of the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") is unaffected.

Statutory background

Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

The Investment Strategy Statement required by Regulation 7 must include:-

- a) A requirement to invest money in a wide variety of investments;
- b) The authority's assessment of the suitability of particular investments and types of investments;
- c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
- d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

- f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. This, in effect, replaces Schedule 1 to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the 2009 Regulations").

Under Regulation 7(6) and (7), the statements must be published by 1st April 2017 and then kept under review and revised from time to time and at least every three years. Under transitional arrangements, key elements of the 2009 Regulations relating to investment policies will continue in force until such time that the Investment Strategy Statement under Regulation 7 is published.

Directions by the Secretary of State

Regulation 8 enables the Secretary of State to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with this guidance.

One of the main aims of the new investment regulations is to transfer investment decisions and their consideration more fully to administering authorities within a new prudential framework. Administering authorities will therefore be responsible for setting their policy on asset allocation, risk and diversity, amongst other things. In relaxing the regulatory framework for scheme investments, administering authorities will be expected to make their investment decisions within a prudential framework with less central prescription. It is important therefore that the regulations include a safeguard to ensure that this less prescriptive approach is used appropriately and in the best long term interests of scheme beneficiaries and taxpayers.

Where there is evidence to suggest that an authority is acting unreasonably, it may be appropriate for the Secretary of State to consider intervention, but only where this is justified and where the relevant parties have been consulted. Regulation 8 includes a number of safeguards, including full consultation with the relevant authority, to ensure that the proposed power is used appropriately, proportionately and only where justified by the evidence.

The Secretary of State's power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.

The power of Direction can be used in all or any of the following ways:-

- a) To require an administering authority to make changes to its investment strategy in a given timescale;
- b) To require an administering authority to invest assets as specified in the Direction;
- c) To transfer the investment functions of an administering authority to the Secretary of State or a person nominated by the Secretary of State; and

- d) To require an administering authority to comply with any instructions from either the Secretary of State or the appointed person in circumstances when the investment function has been transferred.

Before issuing any Direction, the Secretary of State must consult the administering authority concerned and before reaching a decision, must have regard to all relevant evidence including reports under section 13(4) of the Public Service Pensions Act 2013; reports from the scheme advisory board or from the relevant local pension board and any representations made in response to the consultation with the relevant administering authority. The Secretary of State also has the power to commission any other evidence or additional information that is considered necessary.

General

Part 2 below sets out the guidance for authorities under each of the component parts of Regulation 7. The specific requirements under each heading are shown at the end of each sub section in a text box and in bold type. It is important to note, however, that these lists are not exclusive and that administering authorities are also required to comply with general public law principles and act within a prudential framework.

Part 2

Regulation 7(2) (a) - Investment of money in a wide variety of investments

A properly diversified portfolio of assets should include a range of asset classes to help reduce overall portfolio risk. If a single investment class is not performing well, performance should be balanced by other investments which are doing better at that time. A diversified portfolio also helps to reduce volatility.

For example, the range of asset classes could include UK and overseas equities of different sectors; bonds with varying maturity; alternative investment assets such as private equity, infrastructure and cash instruments.

However, this guidance does not purport to prescribe the specific asset classes over which fund monies must be diversified. This remains a decision for individual administering authorities to make. Administering authorities are expected to be able to demonstrate that those responsible for making investment decisions have taken and acted on proper advice and that diversification decisions have been taken in the best long term interest of scheme beneficiaries.

An administering authority must also be able to demonstrate that they review their diversification policy from time to time to ensure that their overall target return is not put at risk.

Summary of requirements

In formulating and maintaining their policy on diversification, administering authorities:-

- **Must take proper advice**

- **Must set out clearly the balance between different types of investments**
- **Must identify the risks associated with their overall investment strategy**
- **Must periodically review their policy to mitigate against any such risks**

Regulation 7(2)(b) - The suitability of particular investments and types of investments

The concept of suitability is a critical test for whether or not a particular investment should be made. Although individual investment classes will have varying degrees of suitability in the context of an authority's funding and investment strategies, the overall aim of the fund must be to consider suitability against the need to meet pension obligations as they fall due.

Assessing the suitability of different investment classes involves a number of factors including, for example, performance benchmarks, appetite for risk, policy on non-financial factors and perhaps most importantly, funding strategy.

What constitutes suitability is clearly a matter for individual administering authorities to consider and decide in the light of their own funding and investment strategies, but there is a clear expectation that the assessment should be broadly consistent across all administering authorities. Administering authorities must therefore take and act on proper advice in assessing the suitability of their investment portfolio and give full details of that assessment in their Investment Strategy Statement.

Summary of requirements

In formulating their policy on the suitability of particular investments and types of investments, administering authorities:-

- **Must take proper advice**
- **Should ensure that their policy on asset allocation is compatible with achieving their locally determined solvency target**
- **Must periodically review the suitability of their investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with their overall investment strategy**

Regulation 7(2)(c) - The approach to risk, including the ways in which risks are to be measured and managed

The appetite of individual administering authorities for taking risk when making investment decisions can only be a matter for local consideration and determination, subject to the aim and purpose of a pension fund to maximise the returns from investment returns within reasonable risk parameters.

Some of the key risks that an administering authority needs to be aware include financial, demographic or regulatory risks. A detailed summary of the identification of all risks and counter-measures to mitigate against them is beyond the scope of this guidance, but administering authorities will continue to have regard to the requirement under Regulation

58 of the 2013 Regulations to have regard to the “Guidance on Preparing and Maintaining a Funding Strategy Statement” published by CIPFA, which includes a section on risk and the ways in which it can be measured and managed.

Summary of requirements

In formulating their policy on their approach to risk, administering authorities:-

- **Must take proper advice**
- **Should clearly state their appetite for risk**
- **Should be aware of the risks that may impact on their overall funding and investment strategies**
- **Should take measures to counter those risks**
- **Should periodically review the assumptions on which their investment strategy is based**
- **Should formulate contingency plans to limit the impact of risks that might materialise**

Regulation 7(2)(d) - The approach to pooling investments, including the use of collective investment vehicles and shared services

All authorities must commit to a suitable pool to achieve benefits of scale. Administering authorities must confirm their chosen investment pool meets the investment reform and criteria published in November 2015, or to the extent that it does not, that Government is content for it to continue.

Any change which results in failure to meet the criteria must be reported by the administering authority, and/or pool, to the Secretary of State and the Scheme Advisory Board.

Administering authorities should set out their approach to pooling and the proportion of assets that will be invested through the pool. This must include the structure and governance arrangements and the mechanisms by which the authority can hold the pool to account.

Where services are shared or jointly procured, the administering authority must set out the rationale underpinning this and the cost benefit of this, as opposed to pooling.

Administering authorities must provide a summary of assets to be held outside of the pool, and how this demonstrates value for money. The progress of asset transfers to the pool must be reported annually against implementation plans and submitted to the Scheme Advisory Board. Where it is possible that an asset could be pooled in the future, authorities must set a date for review and criteria that need to be met before the asset will be pooled.

Summary of requirements

In formulating and maintaining their approach to pooling investment, including the use of collective investment vehicles and shared services, an administering authority must:-

- **Confirm the pooling arrangements meet the criteria set out in the November 2015 investment reform and criteria guidance at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf, or have been otherwise agreed by the Government**
- **Notify the Scheme Advisory Board and the Secretary of State of any changes which result in failure to meet the criteria**
- **Set out the proportion of assets that will be invested through pooling**
- **Set out the structure and governance arrangements of the pool and the mechanisms by which the authority can hold the pool to account**
- **Set out the services that will be shared or jointly procured**
- **Provide a summary of assets that the authority has determined are not suitable for investing through the pool along with its rationale for doing so, and how this demonstrates value for money;**
- **Regularly review any assets, and no less than every 3 years, that the authority has previously determined should be held outside of the pool, ensuring this continues to demonstrate value for money**
- **Submit an annual report on the progress of asset transfers to the Scheme Advisory Board**

Regulation 7(2)(e) - How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

When making investment decisions, administering authorities must take proper advice and act prudently. In the context of the local government pension scheme, a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence. This approach is the standard that those responsible for making investment decisions must operate.

Although administering authorities are not subject to trust law, those responsible for making investment decisions must comply with general legal principles governing the administration of scheme investments. They must also act in accordance with ordinary public law principles, in particular, the ordinary public law of reasonableness. They risk challenge if a decision they make is so unreasonable that no person acting reasonably could have made it.

The law is generally clear that schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and

corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.

However, the Government has made clear that using pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

Although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

Investments that deliver social impact as well as a financial return are often described as “social investments”. In some cases, the social impact is simply in addition to the financial return; for these investments the positive social impact will always be compatible with the prudent approach. In other cases, some part of the financial return may be forgone in order to generate the social impact. These investments will also be compatible with the prudent approach providing administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.

Summary of requirements

In formulating and maintaining their policy on social, environmental and corporate governance factors, an administering authority:-

- **Must take proper advice**
- **Should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors**
- **Must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments**
- **Should not pursue policies that are contrary to UK foreign policy or UK defence policy**
- **Should explain their approach to social investments**

Regulation 7(2)(f) - The exercise of rights (including voting rights) attaching to investments

The long-term investment interests of administering authorities are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which they invest. Poor governance can negatively impact shareholder value.

Stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure

and corporate governance, including culture and remuneration. Engagement by administering authorities is purposeful and can identify problems through continuing dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings.

Engagement enables administering authorities as long term shareholders to exert a positive influence on companies to promote strong governance, manage risk, increase accountability and drive improvements in the management of environmental, social and corporate governance issues.

Administering authorities are encouraged to consider the best way to engage with companies to promote their long-term success, either directly, in partnership with other investors or through their investment managers, and explain their policy on stewardship with reference to the Stewardship Code. Administering authorities should become Signatories to the Code and state how they implement the seven principles and guidance of the Code, which apply on a “comply or explain” basis.

Concern has been expressed in the past about the scope of Regulation 12(2)(g) of the 2009 Regulations which, in effect, allowed each administering authority to decide whether or not to adopt a policy on the exercise of the rights attaching to investments, including voting rights. To increase awareness and promote engagement, Regulation 7(2)(f) now requires every administering authority to formulate a policy that reflects their stewardship responsibilities.

Summary of requirements

In formulating their policy on the exercise of rights, administering authorities:-

- **Must give reasons in their Investment Strategy Statement for not adopting a policy of exercising rights, including voting rights, attaching to investments**
- **Should, where appropriate, explain their policy on stewardship with reference to the Stewardship Code**
- **Should strongly encourage their fund managers, if any, to vote their company shares in line with their policy under Regulation 7(2)(f)**
- **May wish to appoint an independent proxy voting agent to exercise their proxy voting and monitor the voting activity of the managers, if any, and for reports on voting activity to be submitted annually to the administering authority**
- **Should publish a report of voting activity as part of their pension fund annual report under Regulation 57 of the 2013 Regulations**

NORTH YORKSHIRE COUNTY COUNCIL**PENSION FUND COMMITTEE****24 NOVEMBER 2016****LGPS POOLING ARRANGEMENTS****Report of the Treasurer****1.0 PURPOSE OF REPORT**

- 1.1 The Committee has previously considered the Government's proposal to pool the Local Government Pension Scheme's investments in England and Wales.
- 1.2 This report updates the Committee on the position.

2.0 BACKGROUND

- 2.1 On 7 July 2015 the Chancellor announced a consultation on legislation for delivering savings via the use of pooled investment vehicles for Scheme assets.
- 2.2 On 25 November 2015 the Government released a set of documents that took this policy forward.
- 2.3 These documents state that the pools should take the form of up to six "British Wealth Funds", each with assets of at least £25bn, which are able to invest in infrastructure and drive local growth.
- 2.4 The local Section 101 committees, in the Council's case the Pension Fund Committee, will remain responsible for setting the funding strategy and the high level investment strategy, e.g. the appropriate asset allocation for their fund. This has been confirmed in answers to Parliamentary questions and by civil servants during the consultation process.
- 2.5 Valuations, the setting of employer contributions and pensions administration will also remain at the local level.

3.0 POOLING PROPOSALS

- 3.1 At the Pension Fund Committee meeting on 25 February 2016, Members considered the pooling options open to the Fund and resolved that it should join the Border to Coast Pensions Partnership (BCPP), a non-regional pool of funds with a like-minded approach to investment. The BCPP members are:

- Bedfordshire
- Cumbria
- Durham
- East Riding
- Lincolnshire
- Northumberland
- North Yorkshire
- South Yorkshire
- South Yorkshire Transport Fund
- Surrey
- Teesside
- Tyne and Wear
- Warwickshire

3.2 As at 31 March 2015, the assets of BCPP were around £36bn, significantly in excess of the Government's threshold of £25bn.

3.3 The initial response to Government from the BCPP was submitted on 19 February 2016. In addition, the Fund made an individual response to provide the context of its own position in relation to pooling.

3.4 At the end of March, the Chair of each fund in the Pool received a supportive letter from Marcus Jones MP, the Minister for Local Government, which also reiterated the requirement for a more detailed submission in July 2016.

3.5 On the deadline date of 15 July 2016 the BCPP submitted this more detailed response, using the Government's template and addressing the guidance, which asked for information on

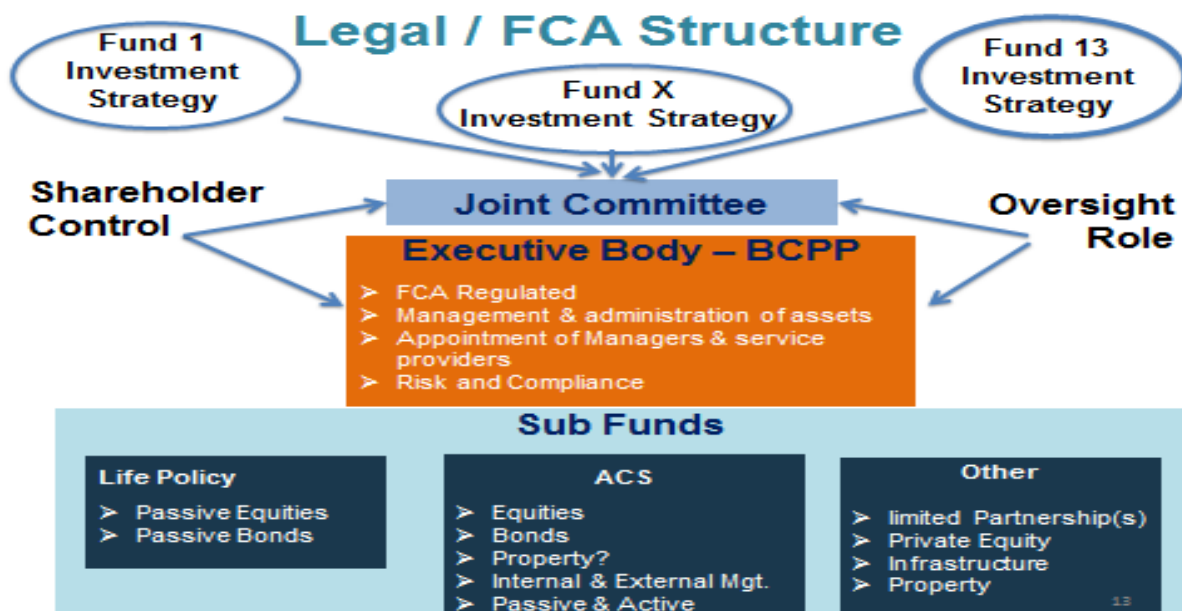
- asset pool(s) that achieve the benefits of scale
- strong governance and decision making
- reduced costs and excellent value for money
- an improved capacity to invest in infrastructure

- 3.6 Due to the size of the document this response is not included in this report but is available on the Fund's website, <https://www.nypf.org.uk/Documents/BCPPProposalforAssetPoolingJuly20160715FINAL.PDF>. Responses from individual funds were not required.
- 3.7 There were eight pooling proposals submitted in February and July 2016. The other seven pools are as follows:
- Central - a group of funds in the Midlands, with assets of £34bn
 - Brunel - a group of funds in the South West, with assets of £22bn
 - ACCESS - a South East based group of funds, with assets of £36bn
 - Wales - all 8 funds in Wales, with assets of £12bn
 - Northern - Merseyside, Greater Manchester and West Yorkshire, with assets of £36bn
 - London - all 33 London boroughs, with assets of £25bn
 - Local Pensions Partnership - Lancashire, London Pension Fund Authority and Berkshire, with assets of £14bn
- 3.8 As a reminder to the Committee, the BCPP received a cost benefit analysis from Deloitte and legal advice from Squire Patton Boggs. The range of potential legal structures was reviewed and a recommendation made of which structures to adopt.
- 3.9 In broad terms the following structures were recommended and formed the basis of the July 2016 proposal.
- Funds – Members, through the individual Pension Fund Committees retain asset allocation decisions, control over the investment strategy and the funding strategy.
 - Supervisory Entity - a Joint Committee to oversee the operation of the FCA regulated BCPP company. This Joint Committee would be made up of representatives from each fund, and operate on the basis of one fund one vote. The Joint Committee would not engage in FCA regulated activities. It would exercise significant control over the Board in matters such as appointments of key personnel, remuneration and approval of the business plan.
 - Executive Body – the wholly owned company controlling all investment decision making (e.g. hiring, firing and monitoring of managers and investment products; FCA compliance; tax monitoring; etc.). These functions would be performed by employees of the newly created FCA regulated investment management company. Some of these employees will also be required to have FCA authorisation, separate from the company authorisation. Advice recommended against anyone

sitting on both the Joint Committee and the Board of this company to avoid conflicts of interest.

- Sub-Funds – assets are to be held in the most operationally and tax efficient manner, which, following the detailed advice above, at a high level is deemed to be
 - liquid quoted assets should be held in an Authorised Contractual Scheme (ACS). This is a structure regulated by the FCA and as such will provide strong controls over the operation
 - assets held in life funds can continue to be held in the name of the individual fund, but future monitoring and tender exercises will be undertaken by the Pool
 - a mix of other structures for illiquid assets such as property, private equity, and infrastructure is still to be determined. They are complex in terms of tax and legal ownership. This is recognised by Government and the current assets in these categories which are held by funds will be allowed to go into run off over an extended period. New investments will be made in the new Pool structures, when they are available.

3.10 The proposed governance and investment structures are shown diagrammatically below:



4.0 INTERIM GOVERNANCE ARRANGEMENTS

4.1 In order to provide some structure around the work being undertaken by the funds in the Pool it was considered appropriate to establish some interim governance arrangements until the formal structures and arrangements are finalised.

4.2 In summary, the following groups have been established:

- Member Steering Group - this consists of the Chairs of each individual fund or a representative nominated by the administering authority. This Group provided input and guidance into the submission in July and will be the decision making body going forward. It is expected that members of this group will report back to, and take soundings from, their respective committees and administering authorities.
- Officer Operations Group - this is accountable to the Member Steering Group. It undertook and co-ordinated the work on the July submission and beyond, and will perform the same role on work going forward.

4.3 Both of these groups will continue to exist to take the pooling initiative forward until the final formal governance structures are established. There have been three meetings of the Members Steering Group so far, on 6 June, 24 June and on 30 September 2016.

4.4 The Member Steering Group has decided that a new Chair will be chosen for each meeting. The fourth meeting of the Member Steering Group is due to take place in York, on 18 November 2016. As this meeting is after the publication deadline for these papers, a verbal update will be provided to Members at the meeting.

4.5 On 5 September 2016 a meeting took place with Section 151 Officers and the Heads of Legal Services of the BCPP administering authorities to go through the proposal in detail.

5.0 PROGRESS TOWARDS THE LONGER TERM ARRANGEMENTS

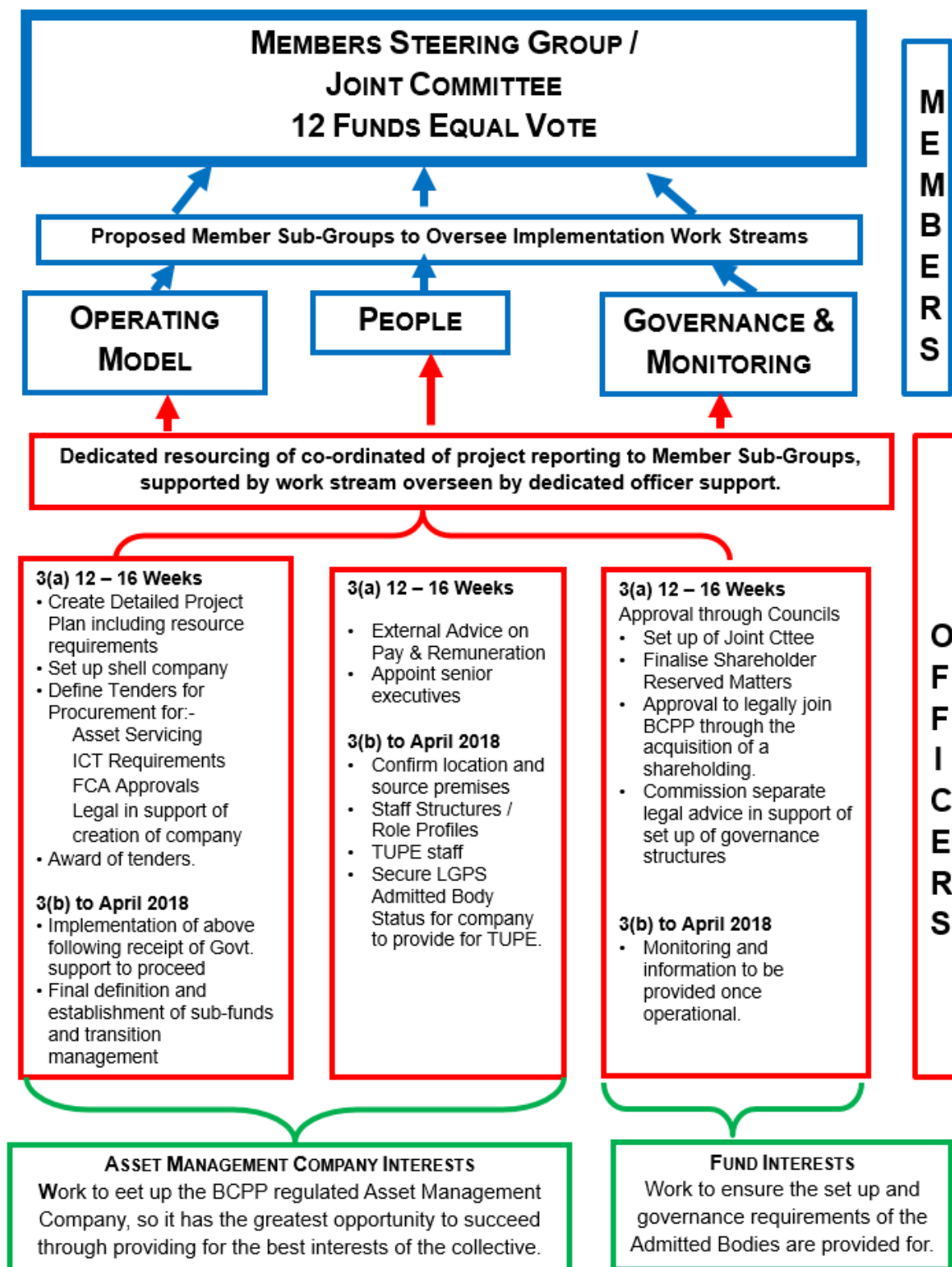
5.1 The Government has stated an expectation that formal pooling arrangements will be in effect by April 2018. The BCPP response submitted in July 2016 suggested that this was possible as long as the Government replied positively by the end of September. The view was that BCPP member funds would not be prepared to spend significant money until it was clear the Government supported the approach. So far, no reply has been received.

5.2 A meeting has however been arranged with Marcus Jones MP on 24 November 2016. Attending will be three Chairs, three officers and one Section 151 Officer, providing wide representation from the BCPP administering authorities. This meeting represents an opportunity to

respond to any questions the Minister may have. A formal reply to the consultation response is expected once the Minister has met with representatives from all eight pools.

- 5.3 The pooling proposal referred to in paragraph 3.6 above includes a section 4a (page 38) on implementation costs, based on two scenarios. Each BCPP member has agreed to bear an equal share of implementation costs, which equates to £350k per Fund based on scenario B, the high estimate. Although every effort will be made to keep costs down, the Member Steering Group agreed to seek approval from their respective Pension Fund Committees to approve expenditure up to this amount. Members are therefore recommended to approve a budget allocation of £350k to facilitate pooling arrangements. It was considered appropriate to get this approval now, to ensure that the BCPP can move quickly to engage the various organisations providing the services, advice and support that will be required to make this happen, once Government has agreed the pooling proposal is acceptable.
- 5.4 Anticipating the work that will be required to set up complex arrangements, the Member Steering Group also decided to set up three specific workstreams. Each would include one or more Chairs from the Member Steering Group to provide direction for the workstream, and officers from the Officer Operations Group who would progress the work.
- 5.5 A procurement process has been initiated to seek further legal advice. This is in two strands, the first being advice that the FCA regulated investment company will need on its arrangements and its relationship with the twelve administering authorities as both investors and owners. The second is advice that the administering authorities themselves will need as investors in and owners of the company. The investors/owners need to have separate legal advice from the company to ensure the interests of both are fully protected. Legal advice will be required to support the work of all three workstreams.

5.6 A diagram providing some details of the areas these three workstreams will cover is shown below:



- 5.7 The Operating Model workstream is focussed on the creation of the FCA regulated investment company and all of the requirements that need to go with it. The initial work includes the creation of a shell company so that it can be a contracting party, rather than advice be commissioned by one of the BCPP Funds on behalf of the other eleven. It also includes more clearly defining the sub-funds which may be available. Meetings with the investment advisers of all twelve BCPP funds are planned in November and December to assist with this.
- 5.8 The People workstream is focussed on the arrangements for everyone who will be employed by the company. This ranges from the Board executive and non-executive director remuneration packages to the accommodation requirements for all staff. Initial work will include consulting with advisers and recruitment agencies to assess the market rates for investment professionals, and establishing the approach to recruitments as required.
- 5.9 The Governance and Monitoring workstream is focussed on the governance arrangements between the administering authorities as investors and owners and the company, and the appropriate monitoring arrangements once pooling is underway. The initial work will be on the terms of reference of the Joint Committee, and the Shareholder Agreement between each administering authority and the company they will own. It is believed that these documents will require approval by the Full Council of each of the administering authorities so a significant lead-in time is expected. Section 151 Officers and the Heads of Legal have all been contacted to alert them to this requirement.
- 5.10 It was initially anticipated that formal approval from each administering authority be sought early in 2017. However, the delays in getting the final approval from Government and the volume of work required to get approval from Full Council of all twelve administering authorities may mean that this is not possible. Any delay would impact on the proposed start date of April 2018.
- 5.11 The completed Joint Committee terms of reference and the Shareholder Agreement are required to be approved by NYCC's Full Council. At this stage it is highly unlikely that these documents will be finalised in time for the Full Council meeting in February 2017. Due to the local elections in May 2017 and the potential Member and committee representative changes, seeking approval at the Full Council meeting in July 2017 may be a more pragmatic approach than May 2017.
- 5.12 One alternative suggested by the Officer Operations Group is whether each administering authorities' Full Council could be asked to approve draft documents at the February 2017 meetings. Final approval could be delegated to the S151 Officer and Head of Legal Services.

5.13 Whichever route is decided upon, there will be a role for this Committee in terms of approval to recommend to Full Council.

5.14 Significant progress on all three workstreams is therefore dependent upon:

- the legal adviser appointments referred to in paragraph 5.5 being in place, expected by early December
- the approval process required by each of the BCPP administering authorities
- approval being received from Government.

6.0 CONCLUSIONS

6.1 The response to the initial pooling submission in February 2016 was well received by Government. The detailed response was submitted by the deadline of 15 July 2016 but a reply from Government has not yet been received.

6.2 Despite the lack of reply from Government, it is expected that it will still want pooling arrangements to be delivered. Workstreams have been created to progress arrangements, but activity has been limited due to the wish to avoid what may be unnecessary expenditure. In this context, the Member Steering Group and the Officer Operations Group continue to meet to progress matters.

6.3 A significant amount of work was undertaken on pulling together the submission for July, however a much greater amount of work lies ahead.

6.4 An update on any further progress will be provided to the Committee at its next meeting.

7.0 RECOMMENDATION

7.1 Members to note the contents of this report.

GARY FIELDING
Treasurer
Central Services
County Hall
Northallerton

14 November 2016

Background documents: None

North Yorkshire County Council

Pension Board

Minutes of the meeting of the Pension Board held on Thursday 6 October 2016 at County Hall, Northallerton commencing at 10 am.

Present:-

Members of the Board

David Portlock (Independent Chairman).

Employer Representatives:

County Councillor Mike Jordan, Councillor Ian Cuthbertson (City of York) and Phil MacDonald (University of Hull).

Scheme Members:

Gordon Gresty, Ben Drake and Stella Smethurst (Unison), and Mandy Swithenbank (GMB).

In attendance:-

County Council Officers: Anna Binks, Tom Morrison, Jo Wade and Josie O'Dowd.

Copies of all documents considered are in the Minute Book

54. Apologies for Absence

Louise Branford-White (Hambleton District Council).

55(a) Minutes

Resolved -

That the Minutes of the meeting held on 14 July 2016, having been printed and circulated, are taken as read and are confirmed and signed by the Chairman as a correct record.

55(b) Action Record

Considered -

The Action Record noting the progress made on actions agreed at previous meetings.

It was agreed that once items have been reported as complete they will subsequently be deleted from the Action Record. Josie O'Dowd was asked to check the item at page 20.

Resolved -

That the suggestion, detailed above, be implemented regarding the on-going management of the Action Record and the updates are noted.

56. Declarations of Interest

It was clarified that Members of the Pension Board were not required to disclose their membership of the Pension Scheme, as defined in the regulations relating to Pension Boards.

57. Public Questions or Statements

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

58. Draft Minutes of the Pension Fund Committee meeting held on 15 September 2016

The Chairman David Portlock reported on the Minutes of the Pension Fund Committee of 15 September 2016 and on issues raised at that meeting. He recorded his thanks to Ruth Gladstone of Democratic Services for turning around the Minutes of Pension Fund Committee in a very short space of time, to enable them to be tabled here.

- ◆ A Member queried why £65m was being invested in property, taking the funding from elsewhere. Tom Morrison explained that the decision had been taken pre-Brexit and he noted that the recent falls in the value of the Fund's property investment is reflective of a change in valuation methodology and not an underlying fall in the property values themselves. He advised that post-Brexit these temporary arrangements had been reviewed by three Fund Managers. The risks were felt to have subsided and property values had remained flat since Brexit. Regarding equity investments, the market has performed surprisingly well post-Brexit with +10 to +15% being added to overseas equity valuations due to currency changes. The Fund was valued at £2.4bn before Brexit and has risen to £2.7bn.
- ◆ A Member speculated about the potentially diminishing role of the Pension Fund Committee once pooling arrangements are in place. It was acknowledged that part of the role of the Committee would transfer to the pool, in relation to manager hiring, monitoring and firing. Asset allocation decisions would however remain with the Committee.
- ◆ It was noted that there is no pension member representation on the Governance Board of the pool and this was felt to be a concern.

The Chairman advised that Audit Committee had the previous week approved the Fund's Annual Report. Tom Morrison also provided updated on the Member Steering Group meeting which had taken place on 29 and 30 September 2016.

- ◆ The question was raised regarding training for Pension Fund Committee Members. Tom Morrison advised that there are no specific requirements for that Committee, and requirements are much more prescriptive for Pension Board Members. It was suggested that perhaps a review of such training requirements could be a project for the Pension Board. It was noted that for

Trustees of Boards an evidential approach to training is required. It was recognised that many of the Members of the Pension Fund Committee are longstanding, many with more than 15 years' service and so they have a great deal of experience. It was acknowledged that whilst the present membership may be very knowledgeable this may not be the situation going forward, with the next County Council Elections on the horizon. It was suggested that the Election in May 2017 could provide a good opportunity to raise the profile of training particularly for new Members of the Pension Fund Committee.

Resolved -

That the feedback from the Pension Fund Committee meeting 15 September 2016 are noted.

59. Internal Audit Reports

Considered -

The report of Legal and Democratic Services providing the Pension Board with an update on internal audit activity.

The Chairman David Portlock referred to his email to the Head of Internal Audit querying the delay with the Quarter 2 report. He advised that two reports were being finalised and others were to be completed later in the year. It was noted that there was no specific date quoted for these items. Tom Morrison advised that he had received an indication from Internal Audit regarding timings, but noted that these reports do not automatically come to Committee unless problems are highlighted. He explained that where there is a high degree of assurance, Pension Fund Committee do not always spend time considering the report. He confirmed that the question of timing was down to Veritau juggling this work around their other priorities.

A Member commented that the practice of raising concerns by exception with a periodic general update seems reasonable. Another Member noted that reporting in January could be very late if a concern is being flagged. Tom Morrison hoped that the high levels of general assurance given, provided the required comfort to Members. Members reiterated that even a short overview would still be appreciated.

Resolved -

That the report is noted.

60. External Audit Report

Considered -

The report of Legal and Democratic Services asking the Board to consider the External Audit Report in relation to the audit of the Pension Fund's 2015/16 financial statement and to consider whether the governance documents in the Annual Report meet regulatory requirements and best practice standards.

The Chairman David Portlock advised that the County Council's financial accounts and statement were approved at Audit Committee on 29 September. Members raised the following points:

- ◆ A query regarding an entry at page 67 relating to audit fees - commenting that this issue should have been foreseen and therefore included at the

outset. Tom Morrison advised that in these circumstances other employers are recharged accordingly, however he acknowledged that prior agreement is usually sought.

- ◆ A Member felt that such action should only be undertaken with prior arrangements.
- ◆ A variance in reporting was also noted, as governance costs had come in lower than expected, despite including pooling related costs.
- ◆ A Member queried the reference to 'best practice principles' at paragraph 6.1(b) and wished to know if the assumption was correct. Responding Tom Morrison advised that the principles referred to had been established by the Scheme Advisory Board prior to the existence of the Pension Board.
- ◆ A Member reminded everyone that during the inaugural meeting, the Pension Board had defined its role.
- ◆ A Member queried whether Pension Boards are stakeholders as referred to in paragraph 3 and Tom Morrison confirmed that details should be included to keep the records up-to-date.

Resolved -

That the report and issues to be raised with officers on KPMG's Audit Report and the Fund's Annual Report are noted.

61. Review of Employer and Administering Authority Discretions

Considered -

The scoping report by Ben Drake, Member of the Pension Board, reviewing the exercise of employer and administering authority discretions.

Ben Drake summarised the background regarding employer and administering authority discretions in particular circumstances. He felt that it would be good practice if all the employers provided this information, as North Yorkshire County Council and the City of York Council already do. He felt it was appropriate to check that all employers hold this information on file and possibly to offer support to smaller employers via the model scheme approach. He felt that this would be beneficial as it would promote transparency.

A Member commented that as academy trusts come on stream this may be needed all the more. Their own discretions policy should be in existence. Ben Drake confirmed that other employers cannot be advised on what the discretion policy should be, however good practice in having a comprehensive document can be shared. Anna Binks referred to the changes occurring in April 2014 and noted that examples pre and post were already on file. She explained that a roadshow had been run for employers regarding the model policy and she confirmed that the County Council had always been based on the LGA template which represents best practice over and above the minimum requirements. She described the table format per discretion and the approach to information sharing, and instructions on how to complete the table whilst still leaving the final decisions up to employers. She felt that the County Council's format is very transparent and a good basis for others to work from. She reiterated that employers had been engaged with at every available opportunity to address this. She advised that pre 2014, 36 policies were in place covering all major employers, whilst post 2014, this has fallen to 17 which does not cover all the major employers. She advised that the outstanding policies had not been chased for some 18 months and she accepted that it is now timely to do so.

A Member asked whether any of the policies leave the North Yorkshire Pension Fund liable for the costs of any discretions, and Anna Binks replied that, in accordance with the regulations, it is the employer who must pay for such discretions as unreduced early retirements. Anna Binks stated that it was not onerous getting the information out there, the challenge was chasing the return of updated policies. She also advised that a dispute resolution process may need to be relied upon where there is no current policy in place. Ben Drake confirmed that this is an area of legal vulnerability, and a Member wished to know with whom the responsibility rests regarding agreement to allow discretion. Tom Morrison advised that the regulations allow discretions but that it is up to the employers to determine their policy. The Fund can only help facilitate this. Ben Drake went on to scope the proposed piece of work which would cover:

1. Clarifying the regulations.
2. The LGA guidance.
3. Best practice.
4. Where we are now.
5. Draft communications.
6. Circulate.
7. Chase returns.

The Chairman David Portlock sought the agreement of the Members and this was confirmed. A Member suggested using the 'efficiency' example to illustrate why this exercise is needed, e.g. flexible retirement, as different organisations could view the matter very differently.

Resolved -

That the report is noted.

62. LGPS Pooling - Update

Considered -

The report of Legal and Democratic Services updating on progress towards the Government's announced intention to pool the assets of LGPS Funds.

Tom Morrison reminded Members that the arrangements have to be in place by 1 April 2018, according to Government. He accepted that if no approval to the pooling proposal was received from Government in September the timetable is likely to slip; however, Government continue to push for April 2018. He stressed that Members and officers want to undertake this exercise properly, and if implementation is consequently delayed slightly, Government intervention seems unlikely. He explained that during the last week of September there had been meetings with Chairs of Pension Fund Committees and an update was expected shortly. He also advised of work being undertaken regarding potential advisers covering tax advice, appointing custodian, and IT system requirements. Discussions were ongoing with Eversheds and Deloittes regarding the legal issues. It had now been agreed that three sub groups would be established:

- ◆ one to consider the operating model, including the depositary and ICT requirements
- ◆ the second to consider the people aspects (including TUPE transfers), recruitment and the pay of senior executives

- ◆ the third to look at governance and monitoring, in particular the terms of reference for the Joint Committee, the shareholder agreement and the monitoring regime.

These groups would require dedicated time and Funds will be expected to volunteer resources to work on and oversee these work streams. It was noted that the costs are to be shared equally and this is expected to be in the region of £350,000 per Fund. Implementation costs are expected to be in the region of £4.2m overall. A suitable process is to be applied to ensure that each Council's Executive and Full Council approve arrangements. Concluding, he stressed that the approach to generating the best outcome for the 12 BCPP Funds will be key. Tom Morrison was expected to be involved in the governance work stream.

The Chairman was keen to understand the knock-on impact this would have on the North Yorkshire Pension Fund and Tom Morrison advised that Anna Binks and Amanda Alderson would provide cover for him.

Members commented as follows:

- ◆ Performance must be the first consideration and fees the second. Tom Morrison concurred with this view.
- ◆ A Member drew attention to the LGA Q&A in August and the official note circulated on this. He noted that the DCLG report speaks of FCA authorised body making investment decisions however each pool could have an advisory body at pool level. Tom Morrison spoke of a supervisory body with Chairs of each of the Pension Funds appointed to it. In this way the pool acts as the investment manager which is then held to account. He noted that there were neither employer nor employee representatives on the body. However DCLG has said that at pool level employer and employee representatives may be allowed, as there are non-voting representatives presently on the Pension Fund Committee. He noted that some pool participants will have more emphasis on Member representation than others, but it will be up to Members of the BCPP Funds to decide who is on the Joint Committee.
- ◆ A Member felt that this was important and did not wish to see pooled arrangements overlooking this issue. She stated that Pension Fund Committee Chairs are arguably employer representatives. Tom Morrison advised that the Chairs are not representing employers but rather Funds. He felt that the DCLG comments were opinions rather than mandatory requirements. Referring to the meeting held in June it was noted that building an FCA regulated entity was deemed the most appropriate route.
- ◆ A Member commented upon the sub group for TUPE etc and the £3.6m cost of servicing arrangements in the proposal. He felt that the absence of competition with other structures could significantly add to the cost of managing the arrangements. He cautioned against the risk of loading the structure with costs for no return, and he wondered if competition with others could help in this regard? Tom Morrison confirmed that the work streams were just starting and they need to be clear about what they were trying to achieve. Regarding Executive salaries research is underway regarding market rates and preparation are being made to find advisers to help with this. Local Government salaries were felt to be inappropriate and commercial rates were probably needed. Tom Morrison stressed that the intention was still to keep salaries at an appropriately sensible level.
- ◆ A Member commented that she was pleased to note that Tom Morrison had volunteered but sought assurance regarding backfill arrangements.

She hoped the costs would be reclaimed from the Pension Fund Committee for releasing him.

- ◆ A Member asked whether the Pension Fund had previously considered fiduciary management and Tom Morrison confirmed that it had not. A Member noted that this can bring quicker decision-making and it could perhaps ameliorate the Brexit impacts. Tom Morrison acknowledged the suggestion and indicated that the pooling proposals moved the decisions on manager appointments to the pool entity, but that's all. Another Member reiterated the need to be in a position to make quicker investment decisions in the changing financial climate.

Resolved -

That the report is noted.

63. Training

Considered -

The report of Legal and Democratic Services providing an update on Pension Board member training.

Josie O'Dowd was asked to recirculate the link to the training modules and Tom Morrison invited suggested topics for future training events. A Member suggested that AON Hewitt be invited to quote for the provision of a half day training following a future Pension Board meeting. It was suggested that this could cover liaison with and scrutiny of the Pension Fund Committee. Tom Morrison also noted that the Pension Fund Committee may wish to suggest issues for the Pension Board to consider. All were asked to review the list at page 187 in light of pooling and this should be brought back to the Pension Board in both January and April 2017.

Resolved -

- (a) That the Pensions Regulator modules which Members have still to complete is noted,
- (b) That Members continue to identify any appropriate training needs.
- (c) That the meetings dates for 2016/17 and 2017/18 as set out in the report are noted.

64. Work Plan

Considered -

The report of Legal and Democratic Services detailing the areas of planned work by the Pension Board.

Resolved -

That the Work Plan is noted.

65. Compliance with Publicity Regulations

Considered -

The verbal report of Anna Binks, Pensions Administration Team Manager, who advised that the North Yorkshire Pension Fund publicity is compliant in most areas. She commented that full membership details should be included on the NYCC website and also details of the appointment process to become a Pension Fund Board Member - a factual account is required. She also referred to the email she had circulated prior to the meeting and it was accepted that it is good practice to review these arrangements on a periodic basis.

Resolved -

That the verbal update is noted.

66. Any Other Urgent Business

The Chairman raised the question of insurance for the Pension Board members and it was confirmed that this is covered by North Yorkshire County Council's policies relating to Committee members.

The meeting concluded at 12.15 pm.

JO'D

DRAFT