Agenda

Meeting: **Pension Fund Committee**

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

Date: **Thursday 23 February 2017 at 10.00am**

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Business

1. **Minutes of the meeting held on 24 November 2016 and the Special Meeting held on 26 January 2017**

(Pages 6 to 22)

2. **Any Declarations of Interest**

3. **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 Steve Loach of Democratic Services *(contact details at the foot of page 1 of the Agenda sheet)* by midday on Monday 20 February 2017. 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.

4. **Triennial Valuation 2016** – Report of the Treasurer

(Pages 23 to 42)

5. **Member and Employer Issues** – Report of the Treasurer

(Pages 43 to 56)

6. **Budget/Statistics** - Report of the Treasurer

(Pages 57 to 60)

7. **Performance of the Fund's Portfolio** – Report of the Treasurer

(Pages 61 to 105)

8. **Governance arrangements –** Report of the Treasurer

(Pages 106 to 133)

9. **LGPS Pooling Arrangements -** Report of the Treasurer

(Pages 134 to 135)

10. **Pension Board –** Verbal update by the Chair of the Pension Board. (The draft Minutes from the meeting held on 26 January 2017 are attached for information.)

(Pages 136 to 143)

11. **Other business which the Chairman agrees should be considered as a matter of urgency because of special circumstances**

NOTE:

Members are reminded that on Friday 24 February 2017, there will be meetings with Newton and Standard Life on their GARS Fund in the Conservative Group Room at 10am.

Barry Khan

Assistant Chief Executive (Legal and Democratic Services)
County Hall
Northallerton

Notes:

Emergency Procedures for Meetings

Fire

The fire evacuation alarm is a continuous Klaxon. On hearing this you should leave the building by the nearest safe fire exit. Once outside the building please proceed to the fire assembly point outside the main entrance

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 (7)			
	Councillors Names		*Political Party*
1	BLACKIE, John		NY Independent
2	BATEMAN, Bernard MBE		Conservative
3	De COURCEY-BAYLEY, Margaret Ann		Liberal Democrat
4	HARRISON-TOPHAM, Roger	(Vice-Chairman)	Conservative
5	MULLIGAN, Patrick		Conservative
6	SWIERS, Helen		Conservative
7	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	0	0	3

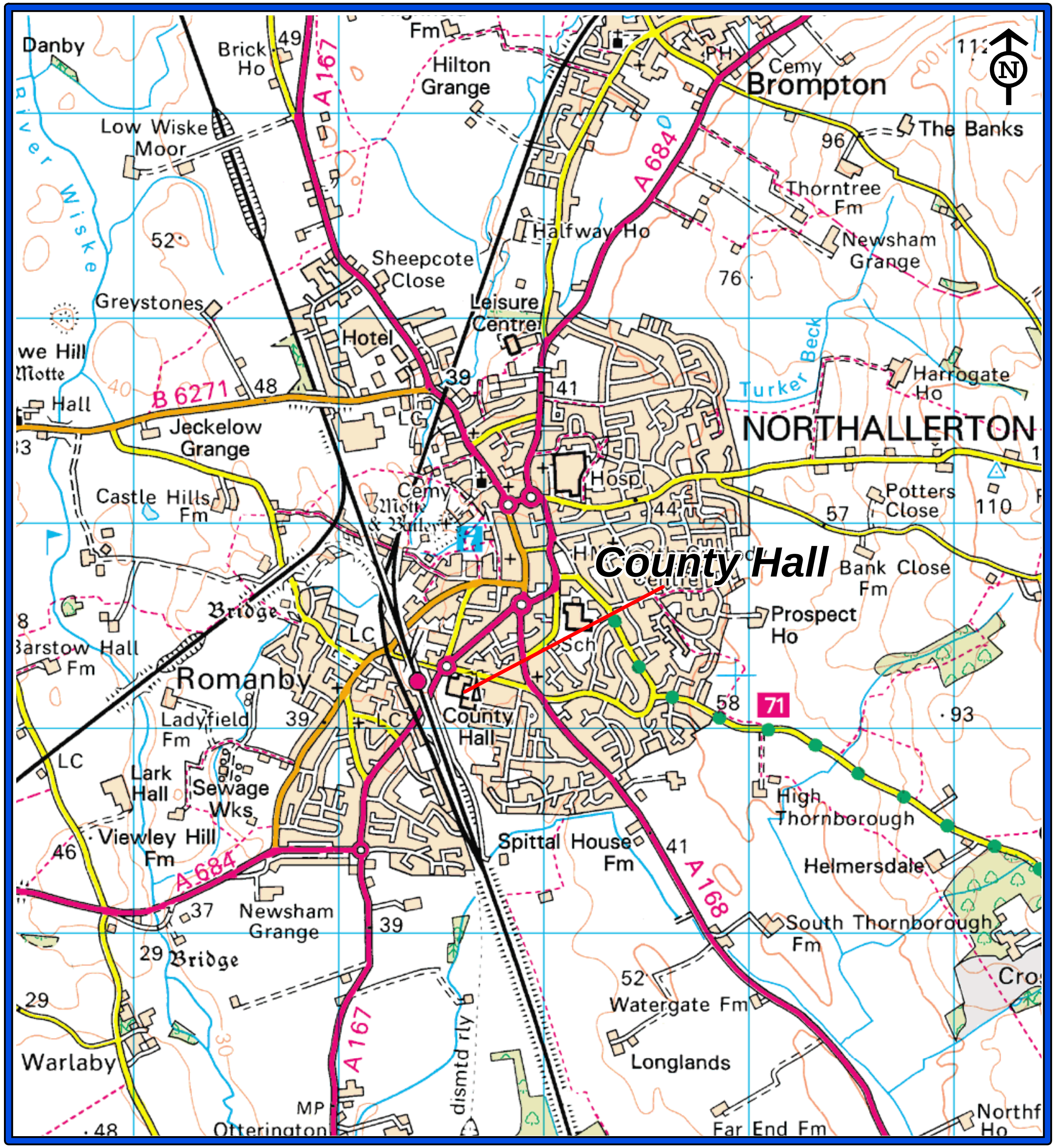
2. Substitute Members

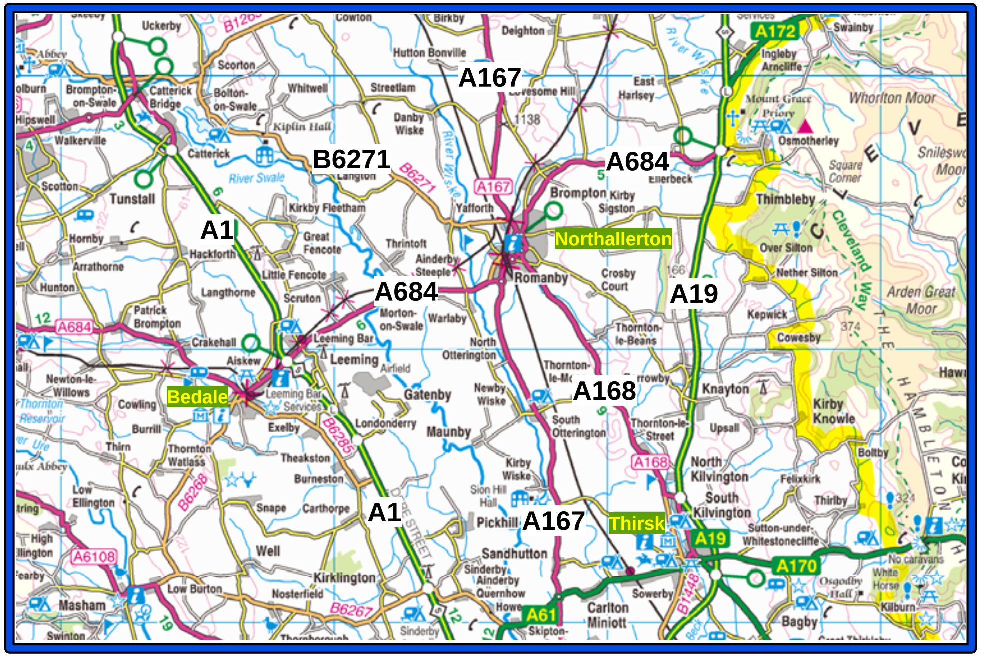
Conservative		**Liberal Democrat**	
	Councillors Names		*Councillors Names*
1	PATMORE, Caroline	**1**	HOULT, Bill
2	LES, Carl	**2**	
3	MACKENZIE, DON	**3**	
4		**4**	
5		**5**	

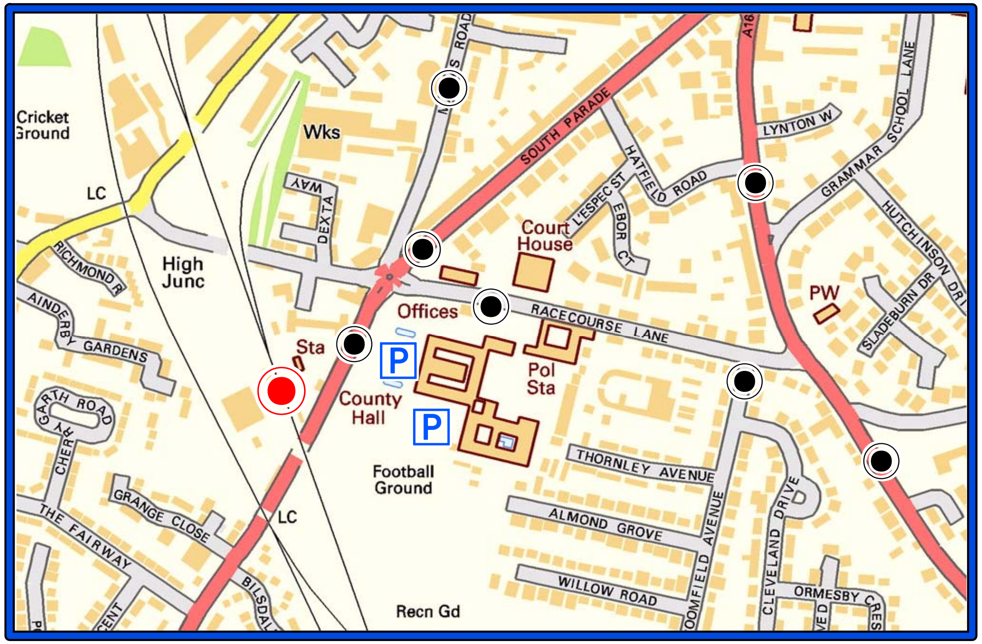
NY Independent			
	Councillors Names		
1	PARSONS, Stuart		
2			
3			
4			
5			

1. Substitute Members

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







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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 24 November 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 and Helen Swiers.

Councillor Jim Clark – North Yorkshire District Councils.

David Portlock - Chair of the Pension Board.

Other representatives of the Pension Board were in attendance.

Apologies – County Councillor Patrick Mulligan submitted his apologies

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Copies of all documents considered are in the Minute Book

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147. Exclusion of the Public and Press

Resolved -

That the public and press be excluded 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 they 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.

148. Minutes

Resolved -

That the Minutes of the meeting held on 15 September 2016, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

149. Declarations of Interest

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

150. Public Questions or Statements

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

Appendices 1-5 to this report were considered in private and the public have no right of access to this. The following is a public summary of business conducted in private.

151. Triennial Valuation 2016 Update

Considered -

The report of the Treasurer updating Members on progress towards the 2016 Triennial Valuation.

The Treasurer highlighted the progress to date including previous discussions at the Pension Fund Committee meetings on 26 February and 15 September 2016, and meetings with representatives of employer bodies. Following consultation with employers, a further report on the final results of the Triennial Valuation was due to come to this Committee in February 2017.

Members queried the different approaches to this Valuation and the previous one. Officers and representatives from the Actuary (Aon Hewitt) explained that this reflected a combination of a legitimate difference in approach to certain aspects of the Valuation between Aon Hewitt and the previous Actuary, and changes that had taken place in the overall context which would apply whichever actuary was undertaking the Valuation. Members were also given assurances regarding the assessment of the strength of the covenants for each employer in informing the primary contribution rate and deficit requirements applicable for 2017-2020.

Resolved -

That the report be noted.

152. Member and Employer Issues

Considered –

The report of the Treasurer advising of the following: that there were 4 new admission agreements and 7 new Academies during the quarter ended 30 September 2016; an analysis of the numbers of active, deferred and pensioner members in the Fund; the performance of the Pensions Administration Team; CIPFA benchmarking results for 2015/16 showing the unit cost for Pensions Administration; the updated Communications Strategy 2016/17; the outcome of the annual check required by HMRC on the growth in each person's pension scheme benefits for the 2015/16 tax year; Member training; and the arrangements for forthcoming Committee meetings and meetings with the Investment Managers.

In response to a question about outstanding IT targets from the 2015/16 Communications Strategy, officers confirmed that these would continue to be pursued as budget allowed, but that they were considered to be desirable rather than essential functions.

Members congratulated the Pensions Administration Team on its excellent performance, especially in the light of increased workload. In particular the importance of the telephone access service was stressed, given that not all scheme members would have access to broadband or be comfortable with self-service on-line options.

Resolved -

That the report be noted.

153. Budget/Statistics

Considered -

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

The Treasurer reported that the cash flow position was broadly in line with expectations over the first 6 months of the financial year. Members were reminded that the Fund held a negative cash balance at the end of September 2016 due to investments made following Brexit, but this had now been rectified by a disinvestment from ECM of £41.9m on 10 November 2016, which would also provide sufficient cash to satisfy the Fund's requirements over the current quarter.

Members queried some of the increases in performance fees reported, and were advised that these reflected the increased out-performance by some of the Fund's managers in the recent period.

Resolved -

That the report be noted.

154. Performance of the Fund's Portfolio for the Quarter ending 30 September 2016

Considered -

The report of the Treasurer on the investment performance of the overall Fund, and of the individual Fund Managers, for the quarter ended 30 September 2016; risk indicators; the solvency position; re-balancing; and proxy voting on behalf of the Fund for the quarter ending 30 September 2016.

Geoff Dalton and Dave Lyons of Aon Hewitt summarised the excellent performance over the last three months by virtually all Fund Managers, and the underlying reasons for this. It was however not anticipated that returns would continue at the same high rates as recently experienced.

Over the last 3 years, only 2 of the Fund's managers performed below their benchmark. It was to be expected that there would be some performance below benchmark across the Fund Managers, given the diverse approach across the overall Fund, but that any performance below benchmark was kept under review.

Whilst welcoming the excellent performance and the impact on the solvency of the Fund, estimated at 93% as at 30 September 2016, Members were concerned about the potential future impact of pooling on the good progress achieved for the Fund by the Committee and its supporting officers. Members requested that information on the performance of other pool members over the last 12 months be circulated to all Committee members by email.

Information was also requested regarding changes over time in the risk indicators reported in Section 5 of the report.

Resolved –

(a) That the investment performance of the Fund for the period ending 30 September 2016 be noted.

(b) That information on the performance of other pool members over the last 12 months be circulated to all Committee members by email.

Appendix 1 to this report was considered in private and the public have no right of access to this. The following is a public summary of business conducted in private.

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155. Equity Portfolio: Strategic Currency Hedging

Considered -

The report of the Treasurer reviewing the merits of currency hedging and considering its re-introduction for the Fund, and an accompanying confidential report from Aon Hewitt.

In response to a query regarding the impact of pooling on any decision to re-introduce hedging, the Treasurer stated his view that, as such a decision was an Investment Strategy decision, it would remain within the remit of the Pension Fund Committee even after 2018, although the operational implementation of any such policy may be impacted by the pooling arrangements.

Members noted some of the considerations for and against currency hedging and agreed to give further consideration to the matter at the Investment Strategy Review meeting due to take place the following day, and to consider a further report at the next quarterly meeting of the Committee.

Resolved -

(a) That further informal consideration be given to the matter at the Investment Strategy Review meeting on 25 November.

(b) To consider a further report at the next meeting of the Committee.

156. LGPS Investment Regulations

Considered -

The report of the Treasurer noting the new LGPS (Management and Investment of Funds) Regulations 2016 which came into effect on 1 November 2016, and which brought about a number of changes to the management and investment of pension fund money.

The Treasurer highlighted that the new Regulations were less prescriptive than previously, but that they did introduce new powers for the Secretary of State which some may feel concerning in terms of the opportunity to be more directive, in particular in relation to Government's desire to see Funds invest in infrastructure. In response to Members' disquiet regarding the implications of the new regulations, and especially the new powers for the Secretary of State, he stressed that the North Yorkshire Pension Fund would continue to determine its own approach through its Investment Strategy. Members stressed that their overriding responsibility continued to be towards members of the Scheme. They also expressed their concern about the recent loss of expertise within the Department for Communities and Local Government (DCLG) in relation to the Local Government Pension Scheme.

Resolved -

That the report be noted.

157. Pension Board

Considered -

The draft minutes of the Pension Board meeting held on 6 October 2016. The Chair of the Pension Board, David Portlock, highlighted the Pension Board's current interest in Internal Audit reports and undertook to make the Pension Fund Committee aware of any issues arising from this work. He also advised the Committee that Pension Board member Ben Drake was leading a review of the exercise of employer discretions on the Board's behalf.

Resolved -

That the update be noted.

158. LGPS Pooling Arrangements

Considered -

The report of the Treasurer updating the Committee on the position regarding the Government's proposal to pool the Local Government Pension Scheme's investments in England and Wales.

The Chairman reported that he and the Vice-Chairman had each attended 2 meetings of the Member Steering Group, and updated Members on the discussions at these meetings. Recent meetings had included a detailed briefing on legal matters. The Bond required by the Financial Conduct Authority (FCA) would be €10m. The structure of the new organisation was very formal and would include a Joint Committee of Chairs of Pension Funds. However it would be the Board of the Company, which would probably not include any elected Members, which would make all appointment and removal decisions on investment managers in future. It was planned that BCPP assets would be approximately 50% internally managed and 50% externally managed, covering broader areas to those currently invested in by the North Yorkshire Pension Fund. The internal management costs would be lower under the pooled arrangements, but the focus would be on net of fees performance. The payback period for the set-up costs was anticipated to average of around 6 years.

The Chairman and Tom Morrison had also attended a Local Government Pension Forum meeting where socially responsible investment had been pushed strongly.

The Treasurer reported that representatives from the Pool were meeting with the Minister today to discuss the Pool's response to the Government consultation. Despite concerns expressed at the impact of delays in receiving a response from Government, the Government has currently signalled that there will be no change in the implementation timetable.

The Chairman reported that he had spoken to the Treasurer regarding his view that that it was not ideal to bring a recommendation about entering into a pooling arrangement to either the February meeting of Council, or the AGM in May, and that it would be preferable to defer this decision until July. However, he had been advised by the Treasurer that a decision should be taken in February, even if final details needed to be delegated to officers. It was acknowledged that Members may not feel comfortable with this. County Councillors would need to understand the basis of the decision they were being asked to take, including the consequences if they were to decide not to agree to enter into a pool. In addition, work was being undertaken to seek views from other employer members of the Fund to feed into the Council decision-making process. The Treasurers of the 12 Funds involved in the pool were due to meet shortly to test whether all can meet the February deadline for decision-making.

Other Members shared the Chairman's disappointment at the apparent passive acceptance of the pooling arrangements by other Funds, but also expressed their desire to work on a positive basis with partners in the pool. Members were reminded that the decision to join the Border to Coast Pensions Partnership (BCPP) pool was linked to it being made up of funds with a like-minded approach to investments. Members also expressed disquiet about the anticipated reduction in the extent of decision-making available to this Committee, which has always been undertaken in the best interests of the scheme's members and employers. The timetable was another area of concern to Members, alongside the costs of setting up the new Pool arrangements, accountability arrangements between the Pool and the Pension Fund Committee, and the potential conflict of interests of officers interested in applying for the new posts to be created.

The Treasurer confirmed that Members' agreement to the funding referred to in paragraph 5.3 of the report was not being sought at this meeting.

Members agreed to hold an additional meeting in January 2017 in order to debate the matter further and agree a recommendation on Pooling Arrangements to be put to the Council meeting on 15 February 2017. The Treasurer informed Members that the current advice from the Monitoring Officer was that the recommendation from this Committee would need to be channelled via the Executive.

It was also agreed that information on LGPS pooling should be included in the Members' Seminar on 5 January 2017, in order that Members are appropriately briefed in advance of the decision required to be taken at Council on 15 February 2017.

Resolved -

(a) That the report be noted.

(b) That information on LGPS Pooling be included in the Members' Seminar on 5 January 2017.

(c) That an additional meeting of the Pension Fund Committee be held in January 2017 in order to agree a recommendation on Pooling Arrangements and associated documentation to be put to the Council meeting on 15 February 2017 for approval.

The meeting concluded at 1.15pm

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North Yorkshire County Council

Pension Fund Committee

Minutes of the meeting held on 26 January 2017 at County Hall, Northallerton commencing at 10.00 am.

Present:-

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

Councillor Chris Steward – City of York Council.

Councillor Jim Clark – North Yorkshire District Councils.

David Portlock - Chair of the Pension Board.

Six representatives of the Pension Board were also in attendance.

Copies of all documents considered are in the Minute Book

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159. Declarations of Interest

County Councillors Bernard Bateman MBE, 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.

160. LGPS Pooling Arrangements

Considered –

The report of the Treasurer updating the Committee on the Government's proposals to pool the Local Government Pension Schemes investments in England and Wales and asking the Committee to recommend for approval by the Executive (and then full Council), an approach for the Council, as administering authority for North Yorkshire Pension Fund, to meet its regulatory obligations for asset pooling through joining the Border to Coast Pensions Partnership (BCPP).

The Treasurer outlined the process of passing the recommendation for the arrangement to be progressed, through the Executive meeting taking place on 31 January 2017, who could then make a recommendation to full Council, as administering authority to the Pension Fund, which meets on 15 February 2017.

The Treasurer noted that this was a major step towards meeting the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which required the 89 separate Local Government Pension Scheme Funds in England and Wales to combine their assets into a smaller number of investment pools. The Regulations required each LGPS administering authority to formulate, having taken proper advice, an investment strategy and to publish a statement of that strategy no later than 1 April 2017, which must include the administering authority's approach to pooling investments.

Members had undertaken a number of discussions at previous Pension Fund Committee meetings in respect of potential pooling arrangements and had committed to joining the Border to Coast Pensions Partnership (BCPP) in January 2016.

The Treasurer explained that the report was required to formally to commit to BCPP and noted that each of the 12 administering authorities would be undertaking similar decisions, with each expected to have formally completed this process by 21 March 2017, with the necessary documents in place to be executed shortly thereafter.

The administering authorities, forming the BCPP pool, would then move forward with the proposals and set up the regulated asset management company, BCPP Limited, ensuring its FCA registration, appointing staff (including TUPE transfer where appropriate), finding a suitable location to operate from, and implementing the other necessary arrangement to facilitate pooling such as appointments of a depositary and custodian.

A general discussion on the proposal was undertaken and the following issues and points were raised:-

- Concern was raised at the speed in which these pooling arrangements had been developed and a Member suggested that there was a need to give a greater deal of consideration to the proposals, and their implications, before committing fully to the process. He suggested that, at this stage, a statement of intent could be put in place, rather than committing to the BCPP pool, allowing further time for due diligence to be undertaken, ensuring that this pool would meet the needs of the North Yorkshire Pension Fund and determining whether other potential pools would better meet those needs. The Chairman, whilst agreeing that it would be more appropriate to delay the process to allow such an important decision to be made, to a Council meeting where more time could be devoted to this matter, possibly after the May Elections, he emphasised the reality of the situation was that the timescales had been set by the Government and would not be changed at this stage. He considered that the Pension Fund Committee had previously committed to joining the BCPP, which was why the proposal was to be put to the County Council as administering authority.

- The Treasurer noted that the commitment to the BCPP was being co-ordinated with the other 11 local authorities involved, which was why the report was being processed at this particular stage. He also noted that the regulations required the Fund describe its commitment to pooling in the Investment Strategy Statement by 1 April 2017 and that it would be risky for the North Yorkshire Pension Fund to be outside of a pool at that date.

- A Member raised concern that should it become apparent that there was a better position, within an alternative pool, better suited the North Yorkshire Pension Fund, then commitment to the BCPP could prevent that option from taking place.

- Difficulties with the current timetable were outlined, with both Chairman and Vice-Chairman of the Pension Fund Committee unable to attend the Executive taking place on 31 January, to which the report was being submitted for referral to the County Council meeting on 15 February 2017. It was asked whether it was possible to have an additional meeting of the Executive to take account of this important matter, allowing either or both Chairman and Vice-Chairman to attend. In response it was noted that for the matter to pass through County Council on 15 February a report would have to be ready by 8 February, therefore, it left only a very limited period for an additional Executive meeting to be called. It was noted that another alternative would be to have a special meeting of the County Council, however, that would also be highly impractical. It was suggested that the matter should be considered at the meeting of full Council on 15 February and, therefore, would be required to go to Executive on 31 January.

- A Member also expressed his concerns with the process being undertaken in respect of this report, suggesting that further time was required to be able to give the matter due diligence and to have confidence in the pooling arrangements going forward. The Chairman again emphasised that should North Yorkshire Pension Fund move away from committing to BCPP, he expected that pooling arrangements would continue, with North Yorkshire being on the outside until it was in a position to join, which would not be beneficial.

- A Member raised concerns regarding the adoption of the proposed investment vehicle as part of the pooling arrangement and considered that this would not be conducive to the current investment strategy of North Yorkshire Pension Fund. He suggested that it would be better for the Pension Fund to continue to utilise its existing Fund Managers, a number of which had produced significant returns for the Fund in recent years, rather than having to use the Fund Managers appointed through the pool. In response the Treasurer noted that the pool would develop a significant number of Investment Managers, with both internal and external investment opportunities created, with a number of sub-funds in place.

- Another Member concurred with the issues raised previously with regards to the process appearing to be rushed. He emphasised that previous decisions had been the subject of special Executive meetings and considered this major issue to be worthy of such arrangements. He noted the decision was of huge significance, financially, to members and employers who formed the North Yorkshire Pension Fund and would be affected by this proposal, going forward. He considered it inappropriate that neither the Chairman nor Vice-Chairman would be able to represent the Pension Fund Committee at the Executive meeting, which was why an additional meeting should be arranged. In response the Chairman considered that the arrangements for the Executive meeting were difficult but considered that the main decision was being made by the full County Council. He did not consider that there was a need, therefore, to arrange a special meeting of the Executive. He noted the concerns raised by Members, however, and had sympathy with the issues they outlined, but emphasised the practicalities of the timetable faced in relation to this matter.

- A Member highlighted the risks being faced by the North Yorkshire Pension Fund in relation to joining the pooling arrangements and stressed the need for care in moving forward with these and the need to ensure that those risks were being considered in full.

- The Chairman highlighted paragraph 3.44 of the report to be submitted to the Executive regarding the control the Pension Fund Committee would retain over its contractual arrangements with Investment Managers, and the decision of how much to invest in funds managed by BCPP, going forward, and he asked for clarification in respect of that matter.

- The Assistant Chief Executive (Legal and Democratic Services) explained the suite of legal documents required for implementing the proposed pooling arrangements. He noted that this would allow discretion for those within the pool to obtain investments from outside of the pool, if there was no capacity to meet a specific investment opportunity within the pool, however, he emphasised that the majority of the investments would be expected to be with BCPP. He stated that, should it be deemed to be necessary for the majority of the investments to be made outside the pool, by one of the partners, it would be seen as the pool not working appropriately and the situation would have to be addressed.

- The Head of Commercial and Investments, Strategic Resources, explained how officers were attempting to establish an investment body that was appropriate for the pool, which would also meet the Government's requirements. It was expected that this investment vehicle would provide investment opportunities for all of the asset classes currently invested in by the various Pension Funds involved with the pool. Some of the established contracts, that North Yorkshire Pension Fund had with existing Fund Managers, would not be transferrable to the new pool and those would need to be managed by the Pension Fund Committee. It was expected that similar opportunities would then be available in time, for new investments in those asset classes within the pool. Where opportunities were unavailable it was considered appropriate that the Pension Funds would be able to continue with those investments, outside of the pool, but again it was emphasised that the majority of investments would be within the pool. He noted that the transitional arrangements had still to be agreed in full and further consideration would be given to those.

- A Member considered that the pooling arrangement would not provide the Pension Fund Committee with the level of opportunity provided currently in terms of meeting its investment strategy, with direct contact with Fund Managers giving the necessary opportunity to oversee those investments and deal directly with those carrying out those investments. Another Member also expressed concern that some of the Fund Managers that the Pension Fund Committee currently dealt with could be lost, as the pooling arrangements may not offer them within those asset classes. There was a potential, therefore, for the North Yorkshire Pension Fund to suffer a fall in its investments through moving into the pooling arrangement. In response the Head of Commercial and Investments, Strategic Resources explained the draft timetable for transition of assets over the next three years. He explained the development of asset classes through sub-funds appointed by the pool, which would be designed to fulfil the investment strategies of the partners involved. It was emphasised that the plan for the transition of assets from the various Funds had not yet been finalised and the concerns raised by Members would be discussed with the other partner Pension Funds, entering into the pool, with a view to addressing some of those concerns.

- A Member asked whether, should agreement be given to formally join BCPP, and it be subsequently determined that the pool was not appropriate for the needs of North Yorkshire Pension Fund, the arrangements could be withdrawn from. In response, the Assistant Chief Executive (Legal and Democratic Services) stated that this could be done, however, there would be financial implications to doing that.

- Members considered the financial benefits of joining the pooling arrangements against those of what had been achieved by the North Yorkshire Pension Fund through the perusal of its own investment strategy in recent years.

- A Member asked whether other partners within BCPP had concerns in respect of the pooling arrangements. In response it was stated that there were some concerns, particularly amongst Treasurers, with regards to the transition arrangements, however, the majority of the other partners appeared comfortable with the arrangements going forward.

- The Treasurer indicated that, broadly, Members had three options in terms of how to move forward on this matter, which was as follows:-

  1. Sign up to the BCPP and accept compromises were inevitable, but note that the approach could be influenced as part of the team;
  2. Consider joining another pool. This would require significant time and willingness on the part of another pool to accept another member;
  3. Elect to not join any pool and risk the Secretary of State exercising powers of direction.

- A Member referred to another pool which was considering an approach that allowed the Pension Funds involved to continue with their investment strategies in line with current practices. He suggested that this would be an approach that would better suit the needs of the North Yorkshire Pension Fund. The Treasurer noted that this pool was yet to receive a response from the Minister as to whether the proposal was acceptable. He was unsure at this stage as to whether such an arrangement would be allowed. The Member suggested that, should the Minister be agreeable, then the issue of transition arrangements would be eliminated. It was noted that, geographically, this pool would be a difficult group to work alongside, with co-ordination taking place much further afield than that proposed for BCPP. It was also stated that timing would be an issue, as North Yorkshire Pension Fund had already aligned and drawn up documentation in respect of joining BCPP and would have to recommence that process with the alternative pool, which again would take time to put in place. A Member suggested that there was a duty of care for the Pension Fund Committee in terms of ensuring that the most appropriate pool for the Fund was being joined. Another Member suggested that, given more time, it would opt to not join any pool at this stage, to allow further opportunities to be considered as to whether other pools could better meet the requirements of the North Yorkshire Pension Fund.

- A Member stated that the major difficulty he had with the proposed arrangement was the loss of the ability for the Pension Fund Committee to select Fund Managers, giving that over to only having 1/12th of a say in who those Managers would be. He suggested that the Pension Fund Committee had, over the years, determined the most appropriate Managers to meet the Investment Strategy through direct conversation and negotiation and was worried that the loss of this would affect the investment position. The Chairman noted that the power for the selection of Investment Managers, within the pool, did not lay with the Joint Committee but with the Chief Investment Officer and Investment Team, therefore, there would be no direct influence from the Pension Fund Committee in relation to that.

- It was again suggested that, at this stage, the North Yorkshire Pension Fund could be in a better position by not aligning itself to any of the pools, and entering into further negotiations to determine which of the available pools, if any, would best suit its needs. The Treasurer and the Assistant Chief Executive (Legal and Democratic Services) suggested that Members should be wary of adopting this approach as it would be likely that the Secretary of

State would be alerted to the fact that the North Yorkshire Pension Fund was not aligned to a pool.

- It was asked whether the regulations outweighed the fiduciary duty of Pension Fund members. In response the Assistant Chief Executive (Legal and Democratic Services) emphasised that legislation outweighed those duties and that the law had to be complied with. Should the North Yorkshire Pension Fund not comply the Secretary of State could undertake the fiduciary duty on the Fund's behalf.

It was suggested that the Committee should focus on the report that was proposed to be submitted to the Executive on 31 January 2017, which would be used to submit a proposal to full Council on 15 February 2017. Section 7 of that report outlined the recommendations that would form that proposal and Members were asked to give consideration to those and determine any amendments that they would wish to make before submitting to the Executive. The Treasurer stated that, should the recommendations be followed, this would provide the necessary agreements for the North Yorkshire Pension Fund to become a member of the Border to Coast Pensions Partnership, subject to agreement by the full County Council. He emphasised that this stage of the process committed the North Yorkshire Pension Fund to becoming a member of BCPP and would enable the establishment of the formal partnership.

Members undertook a further detailed discussion, in relation to the report to be considered by Executive, with the following issues and points being raised:-

- Issues relating to the initial financial commitment were outlined. It was noted that initial costs for joining the pool were in the region of £350k. North Yorkshire Pension Fund was also required to make an investment in the region of £725k as part of the regulatory capital designed to support the solvency of the company which was required of FCA regulated businesses. There would be on-going costs for the operation of the pool in terms of transition arrangements, the setting up of sub-funds and the establishment of a staffing structure, to which the North Yorkshire Pension Fund would have a 1/12th commitment. It was noted that should the North Yorkshire Pension Fund pull out of the pooling arrangements, before transition, the remaining members of BCPP would be required to pay back the £725k regulatory capital. It was also emphasised that should the North Yorkshire Pension Fund withdraw from the pool following transition then the costs to the Fund would be substantially higher.

- Clarification was provided in relation to Government expectations in terms of Pension Funds being part of a pool. Pools were expected to be operational from 1 April 2018 and initial check points, as to how that was progressing, would be taken in Spring 2017 and Autumn 2017. BCPP would report back on the current position when requested by the Secretary of State. It was noted that the final decision of each of the administering authorities of the Pension Funds, which would make up BCPP, was expected by 21 March 2017. Meetings of the Member Steering Group had been arranged for March 2017 and the first meeting of the Shareholder Group was expected to take place on 25 April 2017.

- In view of the timetable outlined a Member asked whether there was still time to consider other pool proposals, to determine whether that would be more in line with what was required by North Yorkshire Pension Fund. In response the Treasurer emphasised that other pools had not been considered and the proposed pool arrangement referred to had not been agreed by the Secretary of State as yet and that the Pension Fund Committee had committed to being part of the BCPP. He stated that, pragmatically, it was difficult to look at other pooling arrangements whilst working within the tight timescales for developing the involvement with the BCPP. The Chairman stated that consideration had been given to another pooling possibility, however, that had been unsuitable to the requirements of the North Yorkshire Pension Fund. He noted that there were other issues to take account of in terms of other pools, which may also be of concern, however, the current commitment to BCPP and the issue of being outside pooling arrangements, when they were expected to commence, were overriding factors.

- A representative of the Pension Board, whose Members had been invited to this meeting, raised concerns regarding the lack of representation within the structure for the Trade Unions, employers and Pension Scheme members. He considered it appropriate that these areas be represented within the proposed governance framework for the BCPP.

- The governance framework for BCPP was discussed and it was noted that the Shareholder Board would have one representative from each of the Pension Funds, however, the Joint Committee could have representation up to 14, which could provide possible scope for additional representation from the groups outlined. It was noted that the Joint Committee would have more of a role on the transition arrangements and would feed back into the administering authorities, with recommendations for approval, in terms of investment management. Each Pension Fund Committee would also receive feedback from its representative shareholder on the Shareholders Board. The company itself would be run by a Board of Directors which would comprise of a non-executive chair and two other non-executive directors, with up to three executive directors. These would be appointed by the agreement of all the administering authorities as shareholders. It was again stated that BCPP would provide a range of funding opportunities from which each individual Pension Fund Committee would decide where to make its investments.

- A Member suggested that shareholder meetings were likely to be held in public, therefore, representations could be made by the groups outlined at those meetings. In response it was noted that, at this stage, some of the interim meetings had been held in private, and there was a need to establish as to what public rights of access would be allowed to those meetings. A Member considered that this was a fundamental issue that required addressing. It was explained that certain issues would be subject to confidentiality, however, there may be a way forward for allowing access to those meetings for Trade Union, employer and member representatives.

- A Member raised an issue of concern regarding shareholders having to reach unanimous decisions on a number of issues, to adhere to Regulation 12 of the Public Contracts Regulations 2015 as the company would be Teckal compliant. In relation to that it was noted that the possibility of having 75% agreement, rather than 100% agreement for shareholder decisions was being explored, to ensure that arrangements could be carried out in the most practical manner possible.

- Members noted that the Joint Committee would have to submit recommendations back to each of the Pension Fund Committees for some decisions to be made, which would make the decision-making process potentially difficult.

- It was clarified that some existing investments would not be able to be moved directly into the pool under the arrangements currently held by North Yorkshire

Pension Fund, however, similar, or the same arrangements may be available within the asset class in the pool in due course. Again it was clarified that the Pension Fund Committee would not have direct access to Fund Managers when the transition had taken place, unless they had particular investments that could not be operated within the pool, and that the majority of their investments would be managed by the pool's investment team. It was emphasised that it would be possible to continue with some of the investments that were already in place, should they be available through the pooled arrangements, through alterations to the terms of the contracts currently in place with North Yorkshire Pension Fund.

- Issues around the possibility of other, large scale groups moving in to takeover BCPP, when European legislation was removed, were discussed. The Treasurer and the Assistant Chief Executive (Legal and Democratic Services) stated that the stakeholders of the company, the 12 representatives of each of the Pension Funds, would be able to stop that from taking place.

- It was emphasised that transition arrangements still had to be determined in detail and a number of current contractual arrangements would need to be changed before this took place. In view of this, should Members consider it appropriate to leave BCPP, it would be far more cost effective to do so before the transition of funds had taken place. In relation to this a Member suggested that he would prefer the Pension Fund Committee to be able to state how transition took place rather than be dictated to by BCPP. The Treasurer emphasised that a collective agreement for transition would be required, with all parties having input into how that would take place, as it was recognised that this was an area of concern for those involved. He noted that that the debate on transition had yet to take place and, therefore, the concerns expressed by Members would be fed into that debate. A Member suggested that the letter from the Minister was clear that he expected all assets in all classes to be pooled, with management of the investments delegated to the pool in full. The Treasurer stated that there was some room for manoeuvre, however, Members should be fully aware that the arrangements would require the transition of the majority of funds to be controlled within the pool. He reiterated, however, that there was still an opportunity to highlight the concerns of Members in terms of negotiating how the transition would take place. The Chairman reassured Members that there would be sufficient sub-funds within the pooling arrangements to allow a substantial choice of where investments could be directed within each asset class. It was acknowledged that this position did not allow for as many opportunities to invest as the current position.

- It was noted that the Pension Fund Committee should determine which of its Members would represent them at shareholders meetings, and it would be appropriate for substitute members to be in place. The nomination would be submitted to Executive, from the Pension Fund Committee, and subsequently to County Council as administering authority for the North Yorkshire Pension Fund as described in the current Constitution. It would be ensured that someone who was able to represent the views of the Pension Fund Committee was nominated as shareholder.

- Members suggested that there should be an additional recommendation to those within the report to Executive relating to the transitional arrangements, to ensure that the Pension Fund Committee had a chance to clarify the investment position before terminating any existing Fund Manager contracts and entering into new ones. It was also suggested that a letter be submitted to the other partners entering into the BCPP arrangements, from the Pension

Fund Committee, outlining the concerns regarding the transitional arrangements and also other issues that had been raised during this meeting.

- A Member noted the issues raised earlier in the meeting regarding representation from Trade Unions, employers and Pension Fund members and suggested that any submission to the other partners should seek to address that issue also.

- It was noted that the report had still to be considered by both Executive and full County Council, and it could be that the two bodies combined could amend the final proposal to include further details in respect of the North Yorkshire Pension Funds membership of the BCPP, including some of the issues raised by Members at this meeting. It was stated that the documents provided within the pack of information were still evolving, as BCPP was not yet a legal entity and arrangements are dependent upon the proposals submitted by the administering authorities.

- In relation to the recommendations authorising the Assistant Chief Executive (Legal and Democratic Services) and the Corporate Director – Strategic Resources to finalise arrangements for the creation of BCPP, as set out in recommendation 6 and 7, it was suggested that these be carried out in consultation with the Pension Fund Committee.

- A Member noted the forthcoming Council Elections and the effect that could have on the dynamic of the BCPP. It was acknowledged that this was an unknown position at this stage.

- A Member requested that the comments, concerns and risks to the North Yorkshire Pension Fund, highlighted by Members at this meeting be reflected to the Executive and suggested that Members of the Pension Fund Committee address the full County Council meeting in relation to those concerns, when the report was considered on 15 February 2017.

- A Member highlighted his concerns in respect of the overall pooling process. He stated that he had been on the Committee for over 12 years and, although he did not have the expertise of some of the Members, he represented the views of the interests of those had a direct relationship with the Pension Fund and the Council Taxpayer. He stated that he had huge respect for the other Members and officers who served the Pension Fund Committee and recognised that others also had difficulty with what was happening. He suggested that there had not been sufficient time given to consider alternatives and that the North Yorkshire Pension Fund was being forced into a position that it did not want to be in. In view of that he could not support the recommendations, emphasising that this was not a political statement, but was a genuinely held view. The Chairman acknowledged the view held by the Member but also highlighted the risks of not complying with the regulations.

- In response to the concerns and issues raised it was stated that officers would continue to monitor the progress of other pools and report back to the Pension Fund Committee on that matter, however, it was emphasised that the processes involved in working up an alternative proposal would take some time to develop. Concerns relating to the transition planning were also recognised and further details in relation to those concerns would continue to be submitted into the Pension Fund Committee in an attempt to try and address those.

Resolved –

(i) That approval be given to the report attached to the main report, for consideration by the Executive on 31 January 2017, with the intention that this was then considered by full Council, acting as administering authority for the North Yorkshire Pension Fund, on 15 February 2017;

(ii) That approval be given to the recommendations set out in Section 7 of the report to the Executive, to read as follows:-

"7.1 The Executive recommends to Council, as the administering authority for the North Yorkshire Pension Fund, that it meets the regulatory requirements to pool Pension Fund assets by:

1. agreeing to be a member of the Border to Coast Pensions Partnership and to adopt its arrangements, by:

   i entering into the Inter-Authority Agreement (Appendix 3) between the Council and the Administering Authorities of the other Pool Funds

   ii entering into the Shareholder Agreement (Appendix 4) between the Council and the Administering Authorities of the other Pool Funds and Border to Coast Pensions Partnership Limited

   iii agreeing the Articles of Association to be adopted by Border to Coast Pensions Partnership Limited (Appendix 5)

   iv approving the establishment of the Border to Coast Pensions Partnership Joint Committee as a formal Joint Committee under section 102 of the Local Government Act 1972 of in accordance with and to carry out the functions as set out in the Inter-Authority Agreement (Appendix 3)

2. approving the subscription by the North Yorkshire Pension Fund of 1 Class A voting share in the asset management company, Border to Coast Pensions Partnership Limited

3. referring the nomination of the shareholder to the Executive

4. approving the subscription by the North Yorkshire Pension Fund for such number of Class B non-voting shares in the Border to Coast Pensions Partnership Limited as shall be necessary to ensure that the Council contributes by way of equity one twelfth of the minimum regulatory capital requirement of the company as determined in by the requirements of the Financial Conduct Authority

5. appointing the Chair of the Pension Fund to represent the Council on behalf of the Fund at the Border to Coast Pensions Partnership Joint Committee meetings"

(iii) That recommendations 6 and 7 be altered to include reference to consultation with the Pension Fund Committee to read as follows:-

"6. authorising the Assistant Chief Executive (Legal and Democratic Services to make the consequential changes required to the Constitution to reflect these new arrangements and report back to the Pension Fund Committee;

7. authorise the Assistant Chief Executive (Legal and Democratic Services) in consultation with the Corporate Director – Strategic Resources to finalise the approval and execution, where required, of all legal documents necessary to give effect to the above decisions and report back to the Pension Fund Committee."

(iv) That an additional recommendation be added relating to transitional arrangements, delegating authority to the Pension Fund Committee to determine the transition plan and to clarify any arrangements regarding the termination of Fund Manager contracts and entering into new contracts;

(v) That consideration be given to submitting a letter to the other BCPP partners setting out the concerns of the Members of the North Yorkshire Pension Fund Committee, as outlined at this meeting.

County Councillor Blackie requested that his vote against the recommendation be recorded.

The meeting concluded at 3.05 pm.

SL/JR

ITEM 4

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

23 FEBRUARY 2017

TRIENNIAL ACTUARIAL VALUATION 2016

Report of the Treasurer

1.0 PURPOSE OF REPORT

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

1.2 To approve the Funding Strategy Statement.

2.0 BACKGROUND

2.1 At the PFC meeting on 15 September 2016 Members received a presentation by the Actuary which set out the provisional results of the Valuation at the whole of Fund level. The assumptions used in the process and potential issues for employers, particularly around affordability, were also discussed.

2.2 This was followed by a meeting on 11 November 2016 which was attended by representatives of the Fund's employing bodies. This meeting received the same presentation by the Actuary, incorporating issues raised by Members at the PFC meeting in September.

2.3 At the PFC meeting on 24 November 2016 Members noted the updated 2016 Valuation position and agreed the flexibility options for employers, the availability of which would be based on the specific circumstances of each employer. A timetable for considering the Triennial Valuation results and signing off the Valuation Report were also discussed.

3.0 CONSULTATION PROCESS

3.1 Employers were sent details of their proposed future service rate and deficit contribution requirements as well as a draft of the Funding Strategy Statement. Negotiations have been taking place between officers and a number of employers on the options for flexibility based on their particular circumstances.

3.2 By the conclusion of the consultation period a number of employers had made specific requests to use the options for flexibility and amend their contribution requirements, especially those that have had their results calculated on an 'orphan basis' for the first time. These are being discussed and agreed with the Actuary and will be reflected in his report (see **section 5** below).

4.0 **EMPLOYER OPTIONS AND CONTRIBUTION RATES**

4.1 Flexibility available to employers on their results is allowed for the purposes of ensuring employer affordability and reducing of deficits as quickly as possible.

4.2 There has in general been a significant increase in the cost of pension benefits calculated by the Actuary. Set against this, there has been a significant improvement in employer funding levels since the 2013 Valuation, at least for employers assessed on a scheduled body basis. The net effect is that on average employers have seen increases in contribution requirements of approximately 2%. There are however significant variations between employers, depending on their specific circumstances.

4.3 The most significant issue, causing significant increases in rates for some employers, was that due to the approach taken by the new actuary which was approved by the Committee, a new ‘orphan basis’ was used to calculate the results for admitted employers with no subsumption agreement in place. This approach was to reflect the potential that certain employers could leave the Fund and crystalise a Gilts based exit calculation. These employers have seen significant increases in their rates compared to the 2013 Valuation position. In these cases, employers have been advised that a subsumption agreement be put in place where possible. A subsumption agreement is where the guarantor would agree to subsume the assets and liabilities of the employer should they leave the Fund. This is considered a stronger guarantee to have in place than the usual guarantee to make the exit payment when the employer exits the Fund, if required.

4.4 A number of employers have requested to phase in their rate increases, especially those orphan employers that could not get a subsumption agreement. In most cases this has been over a 3 year period. But in some cases, dependent on the financial position of the employer, this period has been increased up to a maximum of 12 years, being half of the maximum recovery period allowed for any employer.

4.5 A small number of employers were allowed to reduce their contribution payment requirements below the future service rate due to having funding levels significantly above 100%.

4.6 No employers were permitted to extend the deficit recovery period or to use an improved investment return allowance. No employers enquired about having their own bespoke investment strategy.

4.7 Large employers have been provided with the option to prepay their deficit amount either 3 years in advanced or annually in advance. Most of these *employers* have taken up the 3 year option. All employers have also been given the opportunity to make additional lump sum deficit payments and a small number of employers are considering this.

4.8 NYPF is still in negotiation with some employers, especially those that are in the process of getting subsumption agreements in place (see paragraph 4.3). Members are therefore asked to delegate responsibility for approving contribution rates to the Treasurer.

5.0 **FUNDING STRATEGY STATEMENT**

5.1 The principles of the Funding Strategy Statement (FSS) have been agreed through discussions between NYPF and the Actuary. At the presentation provided by the Actuary on 15 September 2016, the approach to be set out in the FSS was provided to Members. The key issues such as phasing in arrangements and deficit payments in advance are mentioned above in section 4. The FSS has been drawn up on this basis and Members are asked to approve this document (attached as **Appendix 1**).

5.2 The main changes to the 2016 Funding Strategy Statement are as follows:

- Wording changes to reflect the recent changes in legislation and CIPFA guidance, including the following:
    - The change to the legislation which now specifies the desirability of keeping future service ("primary") contribution rates as constant as possible, rather than overall employer contributions; and
    - References to long-term cost efficiency.

- An explanation has been included on the approach to be adopted for orphan employers. This is to recognize that some employers could leave the fund at some point and potentially crystalise an exit payment. Paragraph…

- The approach to phasing in of rate increases over a number of years where appropriate, to smooth out the impact for budget management purposes is described in paragraph…

- An explanation of the new approach to employers in surplus has been included. Any surplus over 110% will normally be paid back to employers over a 6 year period. If an employer has a subsumption agreement in place this payback period extends to the recovery period of the guarantor. This both provides a level of stability in employer contribution requirements and a modest buffer to the employers funding position should this deteriorate.

- Wording has been added in Appendix 1 to reflect the Administering Authority's approach to setting the funding target for the two orphan universities at the 2016 valuation.

6.0 **TRIENNIAL VALUATION REPORT OF THE ACTUARY**

6.1 The Actuary's formal Valuation Report cannot be produced until the negotiations with all employers are complete and the contribution schedule is approved by NYPF (see **paragraph 4.8** above).

6.2 The material to be included in the Valuation Report has been discussed with Members previously, being based on the presentation received from the Actuary, and there are no material changes to the key assumptions or financial circumstances that have been previously agreed.

6.3 The draft Valuation Report is subject to internal review within Aon before being formally certified by 31 March 2017. A draft copy will be available during March and will be circulated to Members.

7.0 **RECOMMENDATIONS**

7.1 That Members approve the Funding Strategy Statement (**Appendix 1**) referred to in **paragraph 5.1**.

7.3 That Members delegate responsibility for approving the schedule of contribution requirements to the Treasurer as described in **paragraph 4.8**.

GARY FIELDING
Treasurer
County Hall
Northallerton
10 February 2017

NORTH YORKSHIRE PENSION FUND (NYPF)
2016 Funding Strategy Statement (FSS)

This Statement has been prepared by North Yorkshire County Council (the Administering Authority) to set out the funding strategy for the North Yorkshire Pension Fund (the NYPF), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and the 2016 guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) ("the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a FSS. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund, the Administering Authority will prepare and publish their funding strategy.
- In preparing the FSS, the Administering Authority must have regard to :-
  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS) or the NYPF published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the ISS.

Benefits payable under the NYPF are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit arrangement with principally final salary related benefits for contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution rate.

The benefits provided by the NYPF are specified in the governing legislation (the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014) and the Regulations referred to above. The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the NYPF should be set so as to "secure its solvency" and to "ensure long-term cost efficiency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. PURPOSE OF THE FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the desirability of maintaining as nearly constant a primary contribution rate as possible;
- to ensure the regulatory requirements to set contributions so as to ensure the solvency and long-term cost-efficiency of the fund are met; and
- to take a prudent longer-term view of funding those liabilities.

The intention is for this strategy to be both cohesive and comprehensive for the NYPF as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3. AIMS AND PURPOSE OF THE NYPF

The aims of the Fund are to:

- enable primary contribution rates to be kept as nearly constant as possible and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, whilst achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the fund and employers, and the risk appetite of the Administering Authority and employers alike
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- seek returns on investments within reasonable risk parameters.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income,

- and pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

4. RESPONSIBILITIES OF THE KEY PARTIES

The Administering Authority should:

- operate a pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in LGPS Regulations
- pay from the pension fund the relevant entitlements as stipulated in LGPS Regulations
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the NYPF's actuary
- prepare and maintain an FSS and a ISS, both after proper consultation with interested parties, monitor all aspects of the NYPF's performance and funding and amend the FSS/ISS accordingly
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and scheme employer
- enable the local pension board to review the valuation process as set out in their terms of reference.

The Individual Employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date

- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework

- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding

- pay any exit payments on ceasing participation in the NYPF

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency and long-term cost efficiency after agreeing assumptions with the Administering Authority and having regard to the FSS and the LGPS Regulations
- prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs etc,
- provide advice and valuations on the exiting of employers from the NYPF
- provide advice to the Administering Authority on bonds or other forms of security against the financial effect on the fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations
- ensure that the Administering Authority is aware of any professional guidance or other professional requirements that may be of relevance to his or her role in advising the NYPF
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the ISS.

5. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

Funding Objective

To meet the requirements of the Regulations the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "**funding target**") assessed on an ongoing past service basis including allowance for projected final pay in relation to pre-2014 benefits or where the underpin applies. In the long term, the employer rate would ultimately revert to the Primary Contribution Rate (also known as the Future Service Rate).

Determination of the Funding Target and Recovery Period

The principal method and assumptions to be used in the calculation of the funding target as at 31 March 2016 are set out in Appendix 1.

Underlying these assumptions are the following two tenets:

- that the Scheme is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to avoid material, and potentially unaffordable, increases in employer contribution requirements we will consider whether we can build into the funding plan the following:-

- stepping in of contribution rate changes for employers where the orphan funding target is being introduced (as defined later in this statement). For the 2016 valuation, the Administering Authority's default approach is to step contribution increases over a period of 3 years, although in certain circumstances a longer period may be considered, after consultation with the Actuary.
- a longer deficit recovery period than the average future working lifetime, particularly where there are a number of younger active members .

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Scheme.

In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole (except where an employer adopts a bespoke investment strategy – see below).

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 actuarial valuation:

- A default recovery period of 18 years will apply.
- In addition, at the discretion of the Administering authority, a maximum deficit recovery period of 24 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).
- In the current circumstances, as a general rule, the Fund does not believe it appropriate for contribution reductions to apply compared to the 2013 funding plan where substantial deficits remain.
- For any open employers assessed to be in surplus, their individual contribution requirements will be adjusted at the 2016 valuation as follows:
    - Where the funding level is 100-110% employers will pay the future service rate only.
    - Where the funding level is over 110% the default approach for Scheduled Bodies and Admission Bodies with no subsumption commitment from a Scheduled Body in the Fund (as defined in Appendix 1) will be to remove any surplus in excess of 10% over a period of 6 years.
    - Where the funding level is over 110% the default approach for Admission Bodies with a subsumption commitment from a Scheduled Body in the Fund will be to remove any surplus in excess of 10% over the recovery period adopted by that Scheduled Body at the 2016 valuation.

- If surpluses are sufficiently large, contribution requirements will be set to a minimum nil total amount.
- The current level of contributions will be phased down as appropriate.

For the avoidance of doubt, for practical purposes where employers are in surplus and contributions are to be set below the cost of future accrual this will be implemented via a reduction in the percentage of pensionable pay rate rather than via a negative monetary amount.

For any closed employers assessed to be in surplus, the above approach will generally be followed but the Administering Authority will consider the specific circumstances of the employer in setting an appropriate period to remove the surplus.

The employer contributions will be expressed and certified as two separate elements:

- a percentage of pensionable payroll in respect of the future accrual of benefit
- a schedule of lump sum amounts over 2017/20 in respect of the past service deficit subject to the review from April 2020 based on the results of the 2019 actuarial valuation.

On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer.

However, the Administering Authority has ultimate discretion where the particular circumstances of any given Employer warrant a variation from these objectives.

In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

Deficit Recovery Plan

If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as annual monetary lump sums, subject to review based on the results of each actuarial valuation.

In determining the actual recovery period to apply for any particular employer to employer grouping, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;

- the assessment of the financial covenant of the Employer; and the security of future income streams
- any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- length of expected period of participation in the Fund.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore, after specific agreement has been obtained by Fund Officers from the North Yorkshire Pension Fund Committee, would be willing to use its discretion to negotiate an **evidence based** affordable level of contributions for the organisation for the three years 2017/2020. Any application of this option is at the ultimate discretion of the Administering Authority and will only be considered after the provision of the appropriate evidence and on the basis that it is not inconsistent with the requirements to set employer contributions so as to ensure the solvency and long-term cost efficiency of the NYPF.

The Primary Contribution Rate (Future Service Contribution Rate)
In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the “primary rate”). The method and assumptions for assessing these contributions are set out in Appendix 1.

6. LINK TO INVESTMENT POLICY SET OUT IN THE INVESTMENT STRATEGY STATEMENT

The results of the 2016 valuation show the liabilities at 31 March 2016 to be 88% covered by the current assets, with the funding deficit of 12% being covered by future deficit contributions.

In assessing the value of the NYPF’s liabilities in the valuation, allowance has been made for a long-term investment return assumption as set out below, taking into account the investment strategy adopted by the NYPF, as set out in the ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches expected future benefit payments and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts. Investment of the NYPF’s assets in line with the least risk portfolio would minimise fluctuations in the NYPF’s ongoing funding level between successive actuarial valuations.

Departure from a least risk investment strategy, in particular to include equity type investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy, as set out in the ISS, is:

Asset Class (Summary)		**%**
	Equities	50-75
	Bonds	15-30
	Alternatives	10-20
	TOTAL	**100**

The funding strategy adopted for the 2016 valuation is based on an assumed long-term investment return assumption of 4.4% per annum. This is below the Administering Authority's view of the best estimate long-term return assumption of 6.4% as at the valuation date.

Bespoke Investment Strategy

The Investment Strategy adopted by NYPF is determined for the Fund as a whole. This Strategy takes into account the characteristics of NYPF as a whole, and therefore those of the constituent employers as an aggregated entity - it does not seek to distinguish between the individual liability profiles of different employers. The Strategy adopted to date, as reflected in the current ISS, is to invest a significant proportion of the assets in equities. Such investments offer a higher expected return, but also carry a higher level of risk.

NYPF is prepared to offer any employer the opportunity to adopt a Bespoke Investment Strategy (eg 100% bonds). However, to the extent that any Bespoke Investment Strategy will necessitate different investment return assumptions to those used by the Actuary for NYPF overall, there may be a consequential impact on the contribution rate calculated for that employer.

In addition, if an employer opts for a Bespoke Investment Strategy, NYPF reserves the right to determine the most appropriate way of arranging for the investment of the relevant share of the assets according to that Bespoke Strategy.

7. IDENTIFICATION OF RISKS AND COUNTER MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the NYPF is based on both financial and demographic assumptions. These assumptions are specified in the Appendices and the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the NYPF's funding is the investment risk inherent in the predominantly equity (or return seeking) based strategy, so that actual asset performance between successive valuations could diverge significantly from the overall performance assumed in the long term.

The Administering Authority keeps, and regularly reviews, a risk register to identify and monitor the risks to the Fund and will, wherever possible, take appropriate action to limit the impact of these both before and after they emerge.

What are the Risks?

Whilst the activity of managing the Fund exposes the Administering Authority to a wide range of risks, those most likely to impact on the funding strategy are investment risk, liability risk, liquidity/maturity risk, regulatory/compliance risk, employer risk and governance risk.

Investment risk

The risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

– assets not delivering the required return (for whatever reason, including manager underperformance)
– systemic risk with the possibility of interlinked and simultaneous financial market volatility
– insufficient funds to meet liabilities as they fall due
– inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
– counterparty failure

The specific risks associated with assets and asset classes are:

– equities – industry, country, size and stock risks
– fixed income - yield curve, credit risks, duration risks and market risks
– alternative assets – liquidity risks, property risk, alpha risk
– money market – credit risk and liquidity risk
– currency risk
– macroeconomic risks

The Fund mitigates these risks through diversification, permitting investment in a wide variety of markets and assets, and through the use of specialist managers with differing mandates.

Employer risk

Those risks that arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities.

The Administering Authority maintains a knowledge base on its employers, their basis of participation and their legal status (e.g. charities, companies limited by guarantee, group/subsidiary arrangements) and uses this information to inform the FSS.

The Administering Authority monitors the active membership of closed employers and considers what action to take when the number of active members falls below 10, such as commissioning a valuation under Regulation 64(4).

Liquidity/Maturity risk

This is the risk of a reduction in cash flows into the Fund, or an increase in cash flows out of the Fund, or both, which can be linked to changes in the membership and, in particular, a shift in the balance from contributing members to members drawing their pensions. Changes within the public sector and to the LGPS itself may affect the maturity profile of the LGPS and have potential cash flow implications. For example,

– The implications of budget cuts and headcount reductions could reduce the active (contributing) membership and increase the number of pensioners through early retirements;
– An increased emphasis on outsourcing and other alternative models for service delivery may result in falling active membership (e.g. where new admissions are closed),
– Public sector reorganisations may lead to a transfer of responsibility between different public sector bodies, (e.g. to bodies which do not participate in the LGPS),
– Scheme changes and higher member contributions in particular may lead to increased opt-outs;

The Administering Authority seeks to maintain regular contact with employers to mitigate against the risk of unexpected or unforeseen changes in maturity leading to cashflow or liquidity issues.

Liability risk

The main risks include inflation, life expectancy and other demographic changes, and interest rate and pay inflation, which will all impact upon future liabilities.

The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation and reports on developments. The Administering Authority will agree with the Fund Actuary any changes which are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

The Fund Actuary will also provide quarterly funding updates to assist the Administering Authority in its monitoring of the financial liability risks. The Administering Authority will, as far as practical, monitor changes in the age profile of the Fund membership early retirements, redundancies and ill health early retirements and, if any changes are considered to be material, ask the Fund Actuary to report on their effect on the funding position.

If significant liability changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and consider whether to require the review the bonds that are in place for Admission Bodies.

Regulatory and compliance risk

Regulatory risks to the scheme arise from changes to general and LGPS specific regulations, taxation, national changes to pension requirements, or employment law.

The Administering Authority keeps abreast of all the changes to the LGPS and will normally respond to consultations on matters which have an impact on the administration of the Fund.

8. MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with employing organisations.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been significant market volatility
- if there have been significant changes to the NYPF membership and/or maturity profile
- if there have been changes to the number, type or individual circumstances of any of the employing authorities to such an extent that they impact on the funding strategy e.g. closure to new entrants
- where employers wish to make additional (voluntary) contributions to the NYPF
- if there has been a material change in the affordability of contributions and/or employer financial covenant strength

North Yorkshire County Council
as Administering Authority for the North Yorkshire Pension Fund

APPENDIX 1

ACTUARIAL VALUATION AS AT 31 MARCH 2016
Method and assumptions used in calculating the funding target

Risk Based Approach

The Administering Authority adopts a risk based approach to funding strategy. In particular the discount rate (for most employers) has been set on the basis of the assessed likelihood of meeting the funding objectives. The Administering Authority has considered 3 key decisions in setting the discount rate:

- the long-term Solvency Target (i.e. the funding objective - where the Administering Authority wants the Fund to get to);
- the Trajectory Period (how quickly the Administering Authority wants the Fund to get there), and
- the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by complex (stochastic) risk modelling carried out by the Fund Actuary, define the discount rate (investment return assumption) to be adopted and, by extension, the appropriate employer contributions payable. Together they measure the riskiness (and hence also the degree of prudence) of the funding strategy. These are considered in more detail below.

Solvency Target

The Administering Authority's primary aim is the long-term solvency of the Fund. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term using appropriate actuarial assumptions.

The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.

For Scheduled Bodies and Admission Bodies where a Scheme Employer of sound covenant has agreed to subsume the Admission Body's assets and liabilities in the NYPF following its exit, appropriate actuarial methods and assumptions are taken to be:

- the Projected Unit method of valuation; and
- assumptions such that, if the Fund had reached the Solvency Target, its financial position continued to be assessed by use of such methods and assumptions, and contributions were paid in accordance with those methods and assumptions, there would be an 80% chance that the Fund would be at least 100% funded after a period of 25 years.

This then defines the Solvency Target.

For Admission Bodies and other bodies whose liabilities are expected to be orphaned following cessation, a more prudent approach will be taken. The Solvency Target will be set by considering the valuation basis which would be adopted should the body leave the Fund. For most such bodies, the Solvency Target will be set commensurate with assumed investment in an appropriate portfolio of Government index linked and fixed interest bonds after exit.

Probability of Funding Success

The Administering Authority considers funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on the level of contributions payable by members and employers and asset-liability modelling carried out by the Fund Actuary.

The discount rate, and hence the overall required level of employer contributions, has been set such that the Fund Actuary estimates there is a 75% chance that the Fund would reach or exceed its Solvency Target after 25 years.

Funding Target

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions and the valuation data. The valuation calculations, including the primary contribution rates and adjustment for the surplus or deficiency, set the level of contributions payable and dictate the chance of achieving the Solvency Target at the end of the Trajectory Period. The key assumptions used for assessing the Funding Target are summarised in Appendix 1.

Consistent with the aim of enabling the primary rate of employers' contribution rates to be kept as nearly constant as possible, contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period. The future service rate will be stable if the profile of the membership (age, gender etc) is stable.

For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire. This approach should lead to more stable employer contribution rates than adoption of the Projected Unit method for closed employers.

Funding Targets and assumptions regarding future investment strategy

For Scheduled Bodies whose participation in the Fund is considered by the Administering Authority to be indefinite and Admission Bodies with a subsumption commitment from such Scheduled Bodies, the Administering Authority assumes indefinite investment in a broad range of assets of higher risk than risk free assets.

For other Scheduled Bodies the Administering Authority may without limitation, take into account the following factors when setting the funding target for such bodies:

- the type/group of the employer
- the business plans of the employer;
- an assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.

For Admission Bodies and other bodies whose liabilities are expected to be orphaned on exit (with the exception of the universities where a different approach will be adopted at the 2016 valuation as set out below), the Administering Authority will have regard to the potential for participation to cease (or for the body to have no contributing members), the potential timing of such exit, and any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or a guarantor exists to subsume the notional assets and liabilities).

For the two universities that are Admission Bodies in the Fund where there is no subsumption commitment but which continue to admit new members to the Fund, the Administering Authority has considered these employers to be sufficiently financially secure to adopt the Scheduled Body / Subsumption funding target at the 2016 valuation of the Fund. In advance of the 2019 valuation the Administering Authority will consider whether this remains an appropriate funding target, or whether the orphan funding target, or another funding target, which reflects the circumstances at eventual exit of these employers from the Fund, would be more appropriate. Notwithstanding the adoption of the Subsumption funding target at the 2016 valuation, if either of these employers were to exit the Fund the funding target on exit would be the least risk funding target as described in the Admissions and Terminations Funding Policy.

The Fund is deemed to be fully funded when the assets are equal to or greater than 100% of the Funding Target, where the funding target is assessed based on the sum of the appropriate funding targets across all the employers/groups of employers.

Financial assumptions

Investment return (discount rate)

The discount rate for the 2016 valuation is 4.4% p.a. with the exception of Admission Bodies which will ultimately give rise to orphan liabilities where the discount rate is:

- 4.1% in service (equivalent to the yield on long-dated fixed interest gilts at a duration appropriate for the Fund's liabilities plus an asset out-performance assumption of 2% p.a.) and
- 2.5% left service, (which is intended to be equivalent to the yield on long-dated fixed interest gilts at the valuation date but which has, in the interests of affordability and stability of employer contributions, been increased by 0.4% p.a. to take account of expected increases in gilt yields after the valuation date).

The gilt yield referred to is based on the Bank of England Bond Curve as at the valuation date.

Inflation (Consumer Prices Index)

The CPI inflation assumption is taken to be the long-term (30 year) Capital Market Assumption at the valuation date as produced by Aon Hewitt Limited. In formulating the Capital Market Assumption, both consensus forecasts and the inflation risk premium are considered.

Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) in the long term will be determined by an allowance of 1.25% p.a. over the inflation assumption as described above plus an allowance for promotional increases.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the RPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Demographic assumptions

Post-retirement Mortality

Base Rates

Normal Health: Standard SAPS S2P tables, year of birth base rates, adjusted by a scaling factor.
Ill-health: Standard SAPS S2 Ill-health tables, year of birth base rates adjusted by a scaling factor.

Scaling Factors

Rates adjusted by scaling factors as dictated by Fund experience

Males (normal health)	100%
Females (normal health)	85%
Males (ill-health)	100%
Females (ill-health)	130%

Future improvement to base rates

An allowance for improvements in line with the CMI 2014, for men or women as appropriate, with a long term rate of improvement of 1.50% p.a.

Pre-retirement mortality

Males:	As for normal health retirements but with a 70% scaling factor
Females:	As for normal health retirements but with a 40% scaling factor

Early retirements

Active members and Deferred members who left before 1 April 2016 who are protected in respect of their Rule of 85 Age following the benefit changes introduced in 2008 (i.e. those members who joined the Fund before 1 October 2006 and who would be aged over 60 on 31 March 2016) will be assumed to retire at the Rule of 85 Age or age 60 if higher with no reduction to accrued benefits.

Active members who joined the LGPS after 31 March 2014 are assumed to retire at their normal retirement age (which is aligned with state pension age).

All other active and deferred members are assumed to retire at age 65.

Withdrawals

Allowance is made for withdrawals from service. On withdrawal, members are assumed to leave a deferred pension in the Fund and are not assumed to exercise their option to take a transfer value.

Retirement due to ill health

Allowance is made for retirements due to ill health. Proportions assumed to fall into the different benefit tiers applicable after 1 April 2008 are:

Tier 1 (upper tier)	90%
Tier 2 (middle tier)	5%
Tier 3 (lower tier)	5%

Family details

A man is assumed to be 3 years older than his spouse, civil partner or cohabitee. A woman is assumed to be 3 years younger than her spouse, civil partner or cohabite.

75% of non-pensioners are assumed to be married / cohabitating at retirement or earlier death. 75% of pensioners are assumed to be married / cohabitating at age 65.

Commutation

Each member is assumed to take cash such that the total cash received (including statutory 3N/80 lump sum) is 75% of the permitted maximum amount permitted of their past service pension entitlements.

Take up of 50/50 scheme

All members are assumed to remain in the scheme they are in at the date of the valuation.

Promotional salary increases

Allowance is made for age-related promotional increases.

Expenses

0.4% of Pensionable Pay added to the cost of future benefit accrual.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the "primary contribution rate") for the 2016 actuarial valuation

Investment return / Discount Rate (scheduled bodies and admission bodies with a subsumption commitment from a scheduled body)	4.4% p.a.
Investment Return / Discount Rate for orphan bodies	4.1% p.a.
In service	
Left service	2.5% p.a.
CPI price inflation	2.0% p.a.
Long Term Salary increases	3.25% p.a.
Pension increases/indexation of CARE benefits	2.0 p.a.

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

23 February 2017

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 New Academies	(see section 2)
(b) Membership Analysis	(see section 3)
(c) Administration Performance	(see section 4)
(d) Member Training	(see section 5)
(e) Meetings Timetable	(see section 6)

2.0 Admission Agreements and New Academies

2.1 The latest position re Admission Agreements is described in the table at **Appendix 1**.

2.2 A request has been received from City of York Council for approval to be given for an admission agreement to be created to allow the continued access to the Local Government Pension Scheme (LGPS) for staff working in City of York Council's music service. A report is included as **Appendix 2**. Members are asked to approve this admission agreement.

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

3.0 Membership Analysis

3.1 The membership movement figures for quarter 3 of 2016/17 are as follows.

Membership Category	*At 31/03/15*	+/- Change (%)	*At 31/03/16*	+/- Change (%)	*At 31/12/16*
Actives	34,990	-3.4	33,796	-2.2%	33,027
Deferred	30,591	+3.7	31,718	+3.1%	32,692
Pensioners*	18,451	+5.2	19,414	+4.2%	20,238
Total	**84,032**		**84,928**		**85,957**

*Figures include spouses' and dependants' pensions

3.2 The overall number of pensioners continues to increase which is consistent with the experience since 1 April 2014 (when members could take their benefits from age 55 onwards rather than having to wait until age 60). Active membership has been revised downwards as a result of the data cleansing exercise that look place as part of the Triennial Valuation process.

3.3 The breakdown of retirements across the Fund in Quarter 3 of 2016/17 is at **Appendix 3.**

4.0 Performance of the Pensions Administration Team

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

Performance Indicator	Target in Q1	Achieved
Measured work achieved within target	98%	98%
Customers surveyed ranking service good or excellent	94%	94.6%
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%	33%
Increase numbers of registered self-service users by 700 per quarter	700	1,088 (total increased from 13,430 to 14,518)

Total sickness absence in Q3	4.5 days per employee	1.35 days per employee

4.2 Performance remained stable for this quarter.

4.3 Telephone queries have reduced following the completion of the Annual Benefit Statement exercise. The Pensions Helpline options have been updated to provide more detailed wording to signpost members to the correct section, depending on the reason for their call. It is hoped that calls from pensioners in particular will be more appropriately directed to colleagues in the NYCC's Employment Support Services who carry out the pensioner payroll function for NYPF.

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. This target was chosen as ambitious but achievable. There has been an increase of 1,088 new users in Quarter 3.

5.0 Member Training

5.1 The Member Training Record showing the training undertaken over the year to 31 December 2016 is attached as **Appendix 4**.

5.2 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.

6.0 Meetings Timetable

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

7.0 Recommendations

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

7.2 Members to approve the request for an admission agreement in **Appendix 2**, referred to in **paragraph 2.2**.

GARY FIELDING
Treasurer

Central Services
County Hall
Northallerton

10 February 2017

LATEST POSITION RE ADMISSION AGREEMENTS

Admission Agreement	Current Position and Action to Be Taken (If Applicable)
ABM Catering Limited providing catering services for the Joseph Rowntree School (City of York Council)	Joseph Rowntree School has awarded the contract for catering services to ABM Catering Limited from 1 September 2016. An admission agreement has been drafted to allow three staff to continue to contribute to the Local Government Pension Scheme.
The Wilberforce Trust providing the Sensory Support Hub for the City of York Council	The City of York Council has awarded the contract for the Sensory Support Hub to The Wilberforce Trust from 1 April 2017. An admission agreement has been drafted to allow two staff to continue to contribute to the Local Government Pension Scheme.
Bulloughs Cleaning Services Ltd providing cleaning services for Our Lady Queen of Martyrs School (City of York Council)	Our Lady Queen of Martyrs School (a voluntary aided school) has awarded the contract for cleaning services to Bulloughs Cleaning Services Ltd from 15 December 2016. An admission agreement has been drafted to allow two staff to continue to contribute to the Local Government Pension Scheme.

LATEST ACADEMY ADMISSIONS

Original name of school	Date of conversion/ current position	Name of academy after conversion
Archbishop Holgate's School (York) Badger Hill Primary School (York) Hempland Primary School (York) Heworth CE Primary School (York)	Schools converted to academies on 1 August 2016	Schools became part of Pathfinder Multi Academy Trust
Scarborough University Technical College	Created on 1 September 2016	University Technical Colleges are treated in the same way as academies under LGPS rules – non-teaching staff must be able to join the LGPS
Forest of Galtres Primary School	School converted to an academy on 1 December 2016	School became part of the Hope Learning Trust
Camblesforth CP School	School converted to an academy on 1 January 2017	School became part of the Ebor Academy Trust

APPENDIX 2

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

23 FEBRUARY 2017

Potential Admission Agreement – York Arts Education

Report of the Treasurer

1.0 **PURPOSE OF THE REPORT**

1.1 To inform Members of a request which has been received from City of York Council for approval to be given for an admission agreement to be created to allow the continued access to the Local Government Pension Scheme (LGPS) of staff working in City of York Council's music service. It is planned that the services will move to a community interest company arrangement on 1 April 2017.

1.2 For a decision to be made on whether to approve the request.

2.0 Reason for the Request

2.1 A community interest company model has been chosen by the City of York Council to provide their music service. The new organisation will be called 'York Arts Education'. An admission agreement would be required to allow continued membership of the LGPS for the two members of staff who are currently paying into the Scheme. The new organisation would become a 'community admission body' under the LGPS Regulations.

2.2 The North Yorkshire Pension Fund Admission and Termination Policy requires that admission agreements relating to 'community admission bodies' must be approved by the Pension Fund Committee.

3.0 Background to the Changes in Service Delivery

3.1 City of York Council has provided background information on the change in the provision of services which currently involves two existing entities; York Music Hub and York Arts Education. It has been confirmed that York Music Hub is a strong and developing partnership including key providers of music education within York. It was established in August 2012 and works with Arts

Council England to support the delivery of The National Plan for Music Education. York Arts Education is a City of York Council service which has a long and successful tradition of high quality delivery and partnership working.

York Arts Education receives no financial support from City of York Council but does receive support 'in kind' in the form of accommodation and support services.

3.2 York Arts Education is the York Music Hub's lead delivery partner. It employs 2 full-time managers and approximately 25 part-time tutors many of whom are qualified teachers. It has been decided that City of York Council is no longer best placed to provide this service. City of York Council does not fund the activity and no longer has a management infrastructure capable of supporting it.

3.3 It has therefore been agreed that it is not appropriate for City of York Council to continue to be involved in this area of activity; however, it is a valued service in the City and it has been concluded that City of York Council should ensure that robust, alternative arrangements are made for the future. A proposal has been put forward by the management of the service to set up a community interest company to operate the service. This would be able to:

- Operate as a business increasing its proportion of earned income
- Be more responsive to the needs of the Hub through a commissioned arrangement
- Increase user involvement in the service

3.4 The new community interest company will be the delivery body for the City's "Music Hub" under the National Plan for Music Education (a function currently carried out by City of York Council). The provision that the community interest company will carry out as the delivery partner of the "Music Hub" includes:

- Music education across the age range and supported both in and out of school
- Whole class ensemble teaching programmes as part of National Curriculum for music in all maintained schools for five to fourteen year olds
- Opportunities to play in ensembles and to perform
- Assuring the standards and quality of provision
- Ensuring that activity reflects the strengths of the partners involved and is complementary
- Providing Continuing Professional Development for teachers

3.5 The contract would be for a period of 3 years.

3.6 The key drivers for considering the transfer of the services to a community interest company model are to:

- Operate more effectively and in a business-like manner

- Increase its proportion of earned income
- Be more responsive to the needs of the Hub through a commissioned arrangement
- Increase user involvement in its governance

4.0 Potential Risks for the Pension Fund

4.1 The main risk is that unfunded liabilities will fall on the North Yorkshire Pension Fund at the time the admission agreement ceases as the liabilities cannot be fully met by the admission body and the original transferring employer (City of York Council) is also unable to make good the shortfall.

4.2 Although assurances have been given regarding the funding of the basic level of services it is still vital that City of York Council provide a subsumption guarantee to the admission agreement as there is no evidence that York Arts Education would be able to cover any unfunded liabilities at the end of the admission agreement.

5.0 Commitment to be made by City of York Council

5.1 City of York Council will act as guarantor for the duration of the contract. A subsumption commitment will be included in the admission agreement so that the assets and liabilities of the community interest company will be subsumed by City of York Council if the community interest company ceases to exist and can't make good any shortfall.

5.2 A business plan has been drawn up for the community interest company by the owners of the company in collaboration with the City of York Council's Finance Team. The Finance Team are satisfied with the robustness of the plan which bases its income and expenditure projections on the Council's experience of operating the service and the conclusion of the Team is that the plan is entirely prudent in relation to the future assumptions. Set up costs are funded by City of York Council. The plan reflects the costs of operating the company outside of City of York Council including the provision of external support services. The business plan is projected to March 2020 and the Finance Team have indicated that the plan shows a stable financial position.

5.3 The majority of the community interest company's income derives from the 'Music Hub grant'. The government has recently announced the extension of this funding to at least March 2020. The transfer of City of York Council staff to the community interest company is dependent upon the Hub entering into a contract with the community interest company, guaranteeing the company this income to at least March 2020. The company will seek to diversify its sources of income over the next three years in order to be less dependent on the Music Hub grant after March 2020; however, no assumptions are made about this in the business plan.

5.4 The City of York Council has agreed to assist the community interest company by providing a guarantee up to March 2020, in respect of redundancy costs for staff transferring, in the event that it fails to obtain further Hub funding or the amount of funding is reduced leading to redundancies.

5.5 Whilst City of York Council has no direct stake in or control of the community interest company it retains a stake in the over-arching Music Hub that will control this provision via a contract. Specifically, City of York Council will be one of the trustees. This contractual relationship will ensure that the educational functions currently delivered by the Council will continue to be delivered by the community interest company.

5.6 If the community interest company failed the staff would transfer back to City of York Council if an alternative provider could not be procured.

5.7 It is not possible to predict the possible long-term success of the community interest company, nor can a view be taken on whether there will be radical changes in the national policies, framework or legislation under which the new arrangement will operate and any impact such changes may have of City of York Council's responsibilities. The strength of City of York Council's assurance does, however, indicate that everything necessary will be done to safeguard the Pension Fund under any potential admission agreement for the life of the admission agreement and on termination.

6.0 Actuarial and Legal Work

6.1 An assessment has been made by the legal adviser to NYPF, Ward Hadaway, of whether the model chosen would permit the creation of an admission agreement. They have confirmed that an admission agreement would be appropriate, given the intended legal identity of the organisation.

6.2 The employer contribution rate has not yet been calculated but the appropriate actuarial assessment would be carried out should approval be given.

7.0 RECOMMENDATIONS

7.1 Given the assurances provided by City of York Council, that Members approve the request.

GARY FIELDING
Treasurer
Central Services
County Hall
Northallerton

Background documents: None

APPENDIX 3

NORTH YORKSHIRE PENSION FUND
Cumulative Total of Retirements from 1 April 2016 to 31 December 2016

Employer	*Normal*	*Ill-Health*		*Efficiency/ Redundancy/ Employers Consent*	*Total*
		Actuarial Assumption≠	*Actual*		
003 - Whitby Town Council	1	-	-	-	1
007 - Scarborough BC	6	2	3	8	17
009 - Hambleton DC	5	1	-	2	7
010 - Ryedale DC	3	1	1	6	10
011 - Harrogate BC	22	2	2	8	32
012 - Richmondshire DC	3	1	-	-	3
013 - Selby DC	3	1	1	3	7
014 - Craven DC	1	1	-	-	1
016 - York St John University	11	-	-	20	31
018 - N/Allerton Burial Board	1	-	-	-	1
020 - York	55	9	9	13	77
025 - NYCC	242	22	2	24	268
041 - Skipton Town Council	1	-	-	-	1
051 - NY Fire and Rescue	4	1	1	2	7
052 - NY Moors NP	1	-	-	-	1
053 - Yorkshire Dales NP	-	1	1	2	3
055 - Uni of Hull	5	-	-	-	5
056 - Malton Town Council	1	-	-	-	1
057 - Yorkshire Housing	8	1	1	-	9
060 - Northallerton TC	1	-	-	-	1
061 - Askham Bryan College	2	1	-	-	2
062 - Craven College	2	1	-	-	2
065 - Selby College	4	-	-	-	4
068 - Scar 6th Form College	1	-	-	-	1
074 - York College	5	-	-	-	5
077 - Craven Housing	6	-	-	-	6
080 - Yorkshire Coast Homes	1	-	-	-	1
102 - South Craven School	1	-	-	-	1
103 - Archbishop Holgate Sc	2	-	-	-	2
104 - Norton College	3	-	-	-	3
106 - Manor CE Academy	-	1	1	-	1
110 - Ringway	5	1	1	-	6
113 - Harrogate High Acad	2	-	--	-	2
120 - Churchill Security	1	-	-	-	1
127 - Haxby Road Primary	1	-	-	-	1
128 - NY Police and Crime C	6	-	-	-	6

129 - NY Chief Constable	17	2	2	11	30
130 - Explore York	3	-	-	-	3
131 - Be Independent	2	-	-	-	2
132 - Housing 21	1	-	-	-	1
133 - Skipton Academy	1	-	-	-	1
139 - Roseberry Academy	2	-	-	-	2
144 - Stokesley School Acad	1	-	-	-	1
146 - Huntington Primary Sch	1	-	-	-	1
149 - SLM Scarborough	1	-	-	-	1
152 - Ebor Academy Filey	-	1	1	2	3
153 - Bishop Wheeler Acad	2	-	-	-	2
155 - Red Kite Learning Acad	1	-	-	-	1
156 - Yorkshire Causeway ST	4	-	-	-	4
157 - South Bank MAT	2	-	-	-	2
160 - Mouchel Kier	1	-	-	-	1
170 - Pathfinder MAT	1	-	-	-	1
174 - Camblesforth CP Acad	1	-	-	-	1
Others	-	1	-	-	-
TOTALS	457	51	26	101	584
	(78%)		(5%)	(17%)	

Quarter by quarter analysis					
Quarter 1	140		9	28	177
Quarter 2	213		7	57	277
Quarter 3	104		10	16	130
Quarter 4	-		-	-	-
	457	N/A	26	101	584

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

Appendix 4

Date	Title or Nature of Course	Bateman B	Blackie J	De Courcey-Bailey M	Harrison-Topham R	Mulligan P	Swiers H	Weighell J	Clark J	Steward C	Portlock D	Hazeldine B	Unison (Vacancy)	Unison (Vacancy)
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	✓							✓					
20 May 2016	NYCC Investment Manager Meeting	✓	✓	✓	✓	✓	✓	✓	✓					
7-9 Sept 2016	LGC Investment Summit	✓	✓											
16 Sept 2016	NYCC Investment Manager Meeting	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓			
5-6 Oct 2016	Baillie Gifford LGPS Pension Seminar		✓	✓		✓	✓	✓	✓					
19-21 Oct 2016	PLSA Annual Conference	✓	✓			✓								
2 Nov 2016	PLSA Local Authority Conference	✓												
25 Nov 2016	Investment Strategy Review	✓		✓	✓	✓	✓	✓	✓		✓			

APPENDIX 5

UPCOMING TRAINING AVAILABLE TO MEMBERS

Provider	*Course / Conference Title*	*Date(s)*	*Location*	*Themes / Subjects Covered*
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.
LGA	14th Annual LGPS "Trustees' Conference	29 – 30 June	Highcliff Marriott Hotel Bournemouth	Pooling, Brexit (Article 50), MIFID II, - precise subjects TBC

APPENDIX 6

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

Meeting Date	Time & Venue	Event	Fund Managers
23 February 2017	10am, Brierley Room	Pension Fund Committee	
24 February 2017	10am, Conservative Group Room	Investment Manager Meeting	Standard Life and Newton Investments
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

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

23 FEBRUARY 2017

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**)

(c) the proposed 2017/18 budget (see section **4**)

2.0 2016/17 FORECAST

2.1 The Cash surplus for the year to 31 December 2016 (£3.2m) was lower than the forecast surplus (£6.2m), by £3.0m.

2.2 Both Pensions Payroll expenditure of £57.6m and Retirement Grant expenditure of £21.2m were more than forecast by £1.4m and £0.9m respectively. The pension payroll expenditure increase reflects an elevated level of early retirements.

2.3 Transfer Income for the period of £7.4m exceeded forecast by £2.2m, while Transfer Expenditure was £4.0m more than budget at £7.0m. Transfer activity is driven by individual member movement and is therefore a challenging area to forecast. During 2016/2017 there have been several transfers out of abnormally high value including three individual transfers totaling £1.8m.

2.4 Performance Related Management Fees of £2.2m were lower than forecast by £1.1m. In 2016/2017 performance fees were as expected for Baillie Gifford LTGG. However other investments with performance fee arrangements have not maintained the very high performance levels witnessed in 2015/2016.

2.5 The Employers Contributions forecast of 117.9m is 9.9m over budget. 9.4m of the additional income is due to an employer paying off their past service deficit in March 2017.

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 31 December 2016 **(as per Appendix 1)**	3.2	
Cash Available as at 31 December 2016	**7.0**	**(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	
November 2016 ECM Disinvestment	41.9	
December 2016 Bluebay Investment	-7.6	
Total Rebalancing	**-5.7**	**c)**
Accruals for December 2016	**6.5**	**(d)**
Available for Rebalancing of the Fund	**7.8**	**(d) = (a+b+c)**

4.0 PROPOSED 2017/18 BUDGET

4.1 The proposed budget for 2017/18 can be found in column (vi) of **Appendix 1.**

4.2 The budget for Pension Payments has been increased by £3m and Retirement Grants by £1.5m. The CPI-linked pension increase is provisionally 1% from April 2017, and pensioner numbers are expected to rise.

4.3 Investment management ad valorem fees have been increased by £300k to £3.6m. This reflects the increase in value of investment assets upon which fees are based. It also reflects the latest profile of managers following the addition of BlueBay and Permira in 2016/17.

4.4 Forecast investment management performance fees, which are calculated each year to a September or October year end depending on the arrangements with each manager, are £3.5m. This is based on an assessment of performance to date together with a forecast for the remaining period.

4.5 The Administration Expenses (Other Services) budget has decreased by £40k to offset the increase last year which anticipated the additional cost of the Triennial Valuation exercise in 2016/17.

4.6 The contributions forecast for 2017/18 has increased by £40m to £148m, £39m of this increase is due to employers paying their deficit 3 years in advance in April 2017.

5.0 RECOMMENDATIONS

5.1 Members to approve the 2017/18 Budget

5.2 Members to note the contents of the report.

GARY FIELDING
Treasurer
Central Services
County Hall
Northallerton

10 February 2017

North Yorkshire Pension Fund Income and Expenditure as at 31 December 2016

Appendix 1

		Budget 2016/17 £000 (i)	Profiled Budget to 31 December £000 (ii)	Actual Income/ Expenditure to 31 December £000 (iii)	Variance ie (iii-ii) £000 (iv)	Forecast 2016/17 £000 (v)	Draft Budget 2017/2018 (vi)
EXPENDITURE							
Benefits							
Pensions		75,000	56,250	57,601	1,351	76,500	78,000
Lump Sums (including refunds)		27,000	20,250	21,190	940	28,500	28,500
	sub total (a)	**102,000**	**76,500**	**78,791**	**2,291**	**105,000**	**106,500**
Admin Expenses							
Finance and Central Services		1,100	825	825	0	1,100	1,100
Other Services		250	188	180	-8	250	210
Other Admin Expenses		200	150	110	-40	200	200
	sub total (b)	**1,550**	**1,163**	**1,115**	**-48**	**1,550**	**1,510**
Investment Expenses							
Investment Management Fees (Base)		3,400	2,550	2,770	220	3,400	3,700
Performance Related		4,500	3,375	2,233	-1,142	3,000	3,500
Custodian Fees		150	113	113	1	150	150
Other Investment Expenses		260	195	160	-35	260	260
	sub total (c)	**8,310**	**6,233**	**5,276**	**-956**	**6,810**	**7,610**
Total Expenditure	**(d)**	**111,860**	**83,896**	**85,182**	**1,287**	**113,360**	**115,620**
INCOME							
Contributions							
Employer and Employee Contributions		108,000	84,975	85,274	299	117,900	148,000
Early Retirement Costs Recharged		2,500	1,875	2,089	214	2,500	2,500
	sub total (e)	**110,500**	**86,850**	**87,363**	**513**	**120,400**	**150,500**
Transfers							
Transfers IN (per individuals)		7,000	5,250	7,420	2,170	7,500	7,500
Transfers OUT (per individuals)		-4,000	-3,000	-7,033	-4,033	-7,000	-5,000
	sub total (f)	**3,000**	**2,250**	**387**	**-1,863**	**500**	**2,500**
Other Income							
Other Investment Income (Hermes)		1,300	975	604	-371	1,300	1,300
	sub total (g)	**1,300**	**975**	**604**	**-371**	**1,300**	**1,300**
Total Income	**(h)**	**114,800**	**90,075**	**88,354**	**-1,721**	**122,200**	**154,300**
Net Surplus	**(i)**	**2,940**	**6,180**	**3,172**	**-3,008**	**8,840**	**38,680**

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

23 FEBRUARY 2017

PERFORMANCE OF THE FUND'S PORTFOLIO FOR THE QUARTER ENDING 31 DECEMBER 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 31 December 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 31 December 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 (+1.7%) was below the customised benchmark for the Fund (+3.1%) by 1.4%.

3.2 The 12 month absolute rolling return was +18.5%, 1.5% below the customised benchmark of +20%.

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 %
31 December 2016	+18.5	-1.5
30 September 2016	+23.0	+2.0
30 June 2016	+7.3	-2.3
31 March 2016	+0.4	-0.7

3.4 The performance of the various managers against their benchmarks for the quarter ended 31 December 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 31 December 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 report of the Investment Consultant explains 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 +1.7% in the Quarter increased the invested value of the Fund by £48m. This Quarter, 7 managers/funds outperformed their respective benchmarks and 6 underperformed against their respective benchmarks. At the end of the December 2016 quarter the value of the Fund was £455m above the value at the end of December 2015, an increase of 19%.

Overseas Equities

4.2 **Fidelity** produced a relative return in the quarter of -0.8% against the benchmark return of +5.5%. Relative performance over the year to December 2016 was -2.8% against the benchmark of 26.8%. Over the last 5 years the manager has exceeded the benchmark by +0.9% p.a. (gross of fees).

Global Equities

4.3 The Global Alpha fund managed by **Baillie Gifford** returned +4.3% for the quarter against a benchmark return of +6.7%. Relative performance over the longer term was -3.6% over 1 year and +2.0% p.a. over 5 years. Since inception in 2006, the Fund has outperformed the FTSE All World by 1.9% p.a.

The LTGG fund, also managed by **Baillie Gifford** produced a return for the quarter of -4.2% against a benchmark return of +6.7%. LTGG is a relatively concentrated fund and short term volatility is to be expected. Relative performance over the longer term was -14.5% over 1 year and +4.1% p.a. over 5 years.

The Global equity funds for **Veritas** and **Dodge & Cox** produced a relative return of -1.5% and +5.9% respectively against the MSCI All Country World benchmark of +6.5%. Both managers invest on a global unconstrained basis so this benchmark is for performance measurement purposes only. In absolute terms, since inception in April 2015, both Veritas and Dodge and Cox have returned +12.6% p.a. against the benchmark return of +11.7%.

UK Equities

4.4 **Standard Life** produced an absolute return of +9.0% for the quarter. This represents an outperformance of 6.4% against the benchmark. Relative performance for the year was +8% against the benchmark of 9.9%. Relative annualised performance over the longer term was -1.4% p.a. over three years and +2.4% p.a. over five years.

Fixed Income

4.5 **ECM** produced +0.4% relative against cash (+0.1%) for the quarter and also +3.4% relative for the year. Annualised performance for the 5 years to December 2016 was +3.6% pa relative against a benchmark of +0.5%.

4.6 The investment in Gilts with **M&G** slightly outperformed the liability matching benchmark of -3.9% for the quarter to December 2016 by +0.3%. Performance for the year was +0.4% above the benchmark return of 30.6%, and annualised performance since inception in 2010 was +0.8% pa above the benchmark of +11.3%.

Property

4.7 The investments with **Hermes, L&G and Threadneedle** produced +0.8%, +0.5% and -6.3% respectively in relative terms, against the property index for each manager in the quarter to December 2016.

4.8 Over the year to December 2016 **Hermes** outperformed against the benchmark, returning in absolute terms +6.4% against a benchmark of 3.7%. **L&G and Threadneedle** both underperformed returning +2.6% and -3.3% respectively in absolute terms against the benchmark of +2.8%.

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 +1.3% against a cash benchmark of +0.1%. The **Newton Investments** Real Return Fund produced a relative under-performance for the quarter of -5.2% against the same cash benchmark.

4.10 Over the period since inception in March 2013, in absolute terms, Standard Life returned +2.5% p.a. against cash of +0.5% and a performance target of +5.5%. Newton achieved +2.3% 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 7.6% for the rolling three year period to 31 December 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 December 2016 was 1.4%, which is slightly below the benchmark of 1.5%.

5.4 The **Tracking Error** figure reflects how closely a fund manager's actual return follows their respective benchmark. As at December 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 December 2016 the ratio for the Fund was +0.2%.

6.0 SOLVENCY

6.1 The **solvency position** is presented in **Appendices 3 and 4**. As at 31 December 2016 the estimated solvency was 97%. This is a 9% 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 9 months of the financial year. In this time the gross return on the Fund's assets was 17.3%.

7.0 REBALANCING

7.1 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 to provide sufficient cash to satisfy the Fund's requirements over the current quarter.

7.2 NYPF also invested £7.6m with Bluebay, one of the two new Private Debt mandates, during the quarter ending 31 December 2016. As these funds were not invested until 19 December 2016, performance figures have not been provided for the last quarter.

8.0 PROXY VOTING

8.1 The report from PIRC is available on request summarising the proxy voting activity in the period October 2016 to December 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 31 December 2016.

GARY FIELDING
Treasurer
Central Services
County Hall
Northallerton

10 February 2017

BNY MELLON
ASSET SERVICING

North Yorkshire Pension Fund

3 Months Ending 31 December 2016

Fund Analysis & Performance Report

BNY MELLON
ASSET SERVICING

Contents

Market Review

Market Briefing - Quarter Ended 30 December 2016

Market Summary

During the 4th Quarter of 2016, returns were positive for most of the sectors. Most Equities achieved positive returns whereas Fixed Income saw mixed returns. Cash also achieved positive returns.

UK Equities

In Quarter Four 2016, the FTSE Small 100 was the best performing index with a return of 4.3%, followed by the FTSE Small Cap with a return of 4.0%. The FTSE 250 showed the weakest performance with a return of 1.7%. Over the one year period ending 31st December 2016, the FTSE 100 was the best performing index with a return of 19.1%. The FTSE 250 was the weakest performing index with a return of 6.7%.

Oil & Gas was the best performing industry sector with a return of 17.6% for the quarter. The weakest performing sector was Technology with a return of -8.9%. Over the one year period returns ranged from 88.8% for Basic Materials to -11.3% for Telecommunications. Oil & Gas was the second best performing sector with a return of 59.8% over the year.

Overseas Equities

Most Overseas Equity markets achieved positive returns during the quarter.

Within Europe, Greece was the best performing country with a return of 21.1%. This was followed by Italy with a return of 15.6%. The weakest performing country was Belgium with a return of -6.7%. Over the one year period, Norway was the strongest performing country with a return of 36.4%, and Greece the weakest with a return of -1.7%.

Outside Europe, USA was the best performing country with a return of 8.8%. USA was followed by Brazil with a return of 7.6%. Mexico was the weakest performing country with a return of -3.2%.

Market Review

UK Bonds

For UK-Bonds, the fourth quarter returns were negative for most of the sectors. Non Gilts outperformed UK-Gilts with a return of -2.8% compared to a return of -3.4%. Within Gilts, Short-dated Gilts was the strongest performing sector with a return of -0.2%. Long-dated Gilts was the weakest performing sector with a return of -6.0%.

Over the one year period ending 31st December 2016, Non Gilts was the best performing sector with a return of 10.6% compared to the return of 10.1% for UK-Gilts. Within Gilts, Long-dated Gilts provided the strongest performance with a return of 18.5%, whilst the weakest came from Short-dated Gilts with 2.6%.

Overseas Bonds

Returns were mostly negative for the Overseas Bonds. Within Europe, Sweden was the best performing country with a return of -3.2%. Belgium was the weakest performing country with a return of -4.8%. Outside Europe, USA was the best performing country with a return of 0.8%. Japan was the weakest performing country outside Europe with a return of -10.3%.

Over the twelve month period, most European Bonds saw positive returns. Denmark provided the strongest performance with a return of 22.4%, followed by Belgium with a return of 21.7%. Outside Europe, the best performance came from the Japan with a twelve months return of 27.4%.

UK Index-Linked Gilts

UK Index Linked-Gilts achieved a negative return of -2.7% for the fourth quarter of 2016. Within this sector, Short-dated Index-Linked Gilts provided the strongest performance with a return of 0.7%. The weakest performance was provided by Long-dated Index-Linked Gilts with a return of -3.8%.

Over the one year period, on an overall basis, UK Index-Linked Gilts achieved a return of 24.3%. Over the same period, Long-dated Index-Linked Gilts was the strongest performing sector with a return of 32.5%, whereas Short-dated Index Linked Gilts showed the weakest performance, returning 4.0%.

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 fourth quarter of 2016, the fund returned 1.65% versus its benchmark of 3.11%, thereby underperformed by 1.46%. In terms of longer period performance, the fund has outperformed over 3 years by 0.4% p.a.

At asset class level, the fund outperformed its blended benchmark in few of the asset classes. UK Equities and Bonds are the best performing sectors which outperformed its benchmark by 6.7% and 0.23%.

Over the quarter, majority of the accounts out-performed their benchmarks. The best performance (excluding the Cash Account) was shown by Standard Life Manager which out-performed its benchmark by 6.40%.

For asset allocation the fund is closely matched to the benchmark with the largest variances being in UK Equities and Alternatives where the fund is 2.97% and 4.51% underweight respectively.

Fund Allocation

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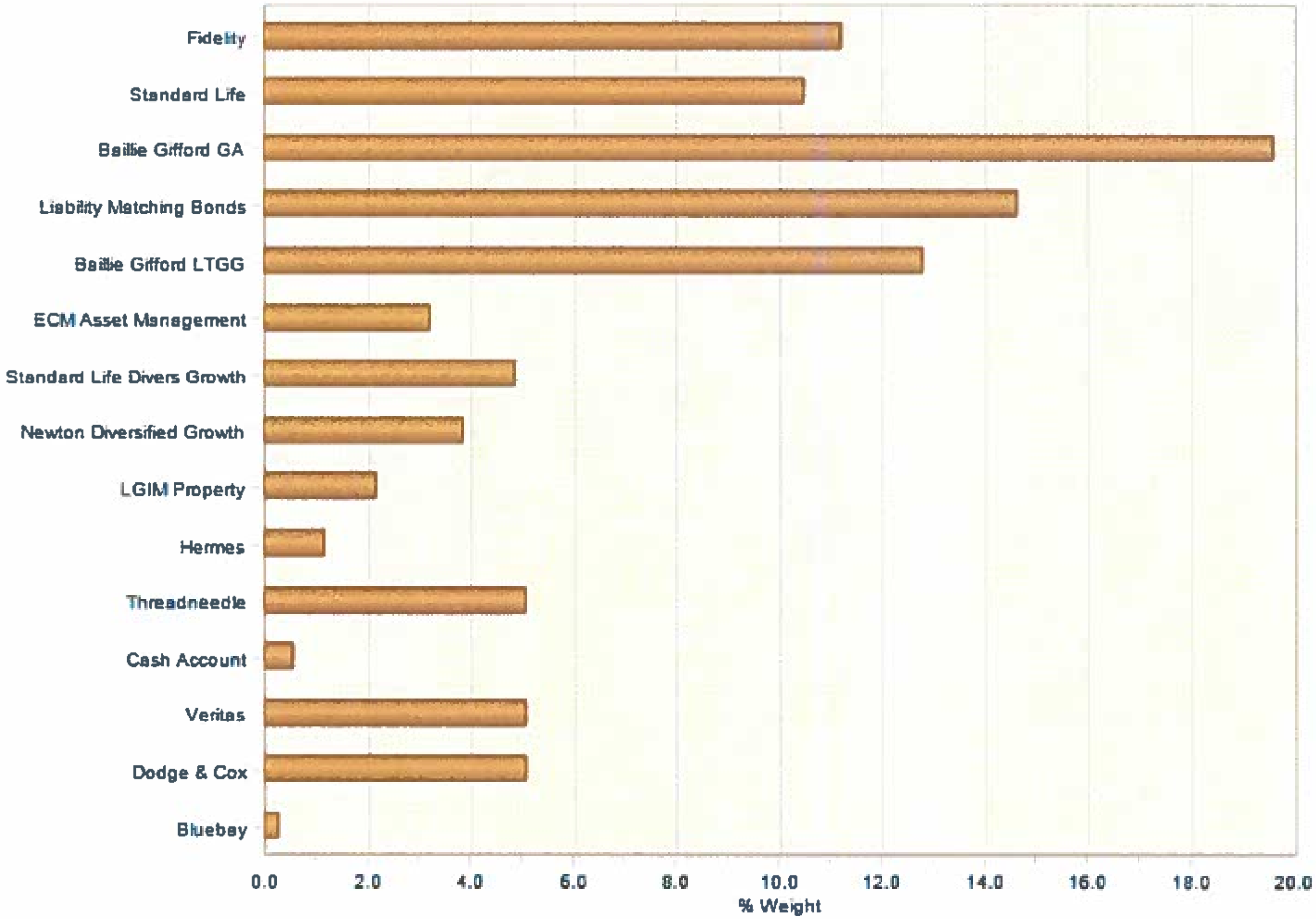
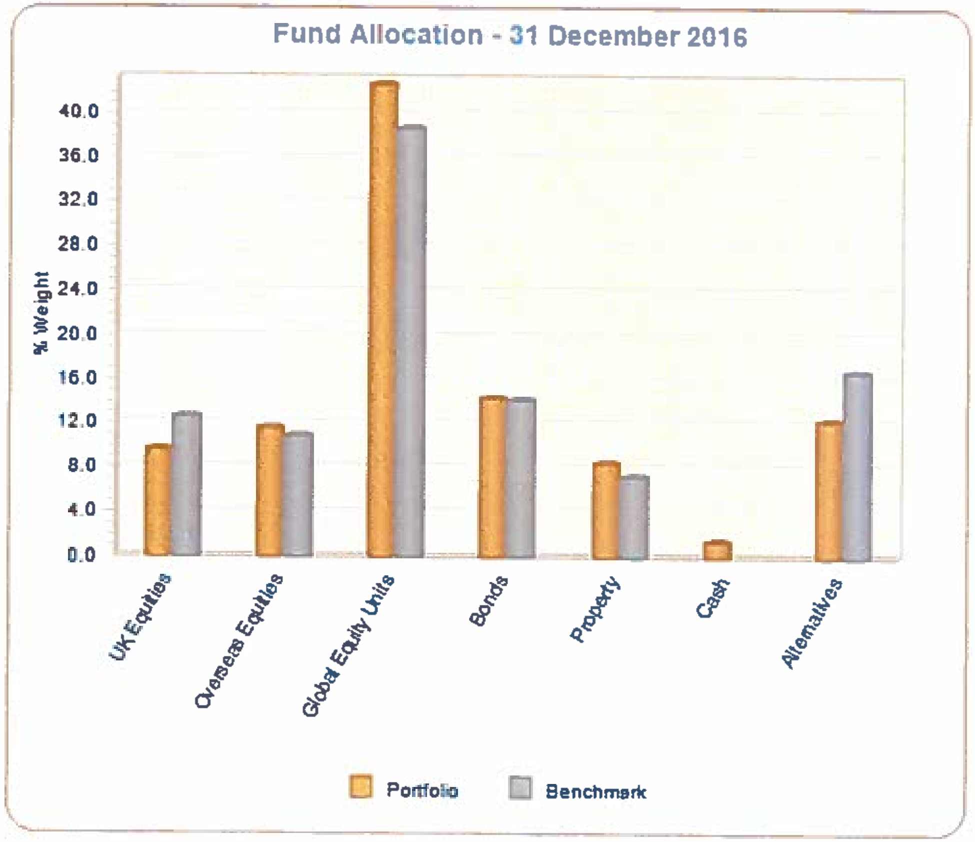
Fund Allocation - Managers

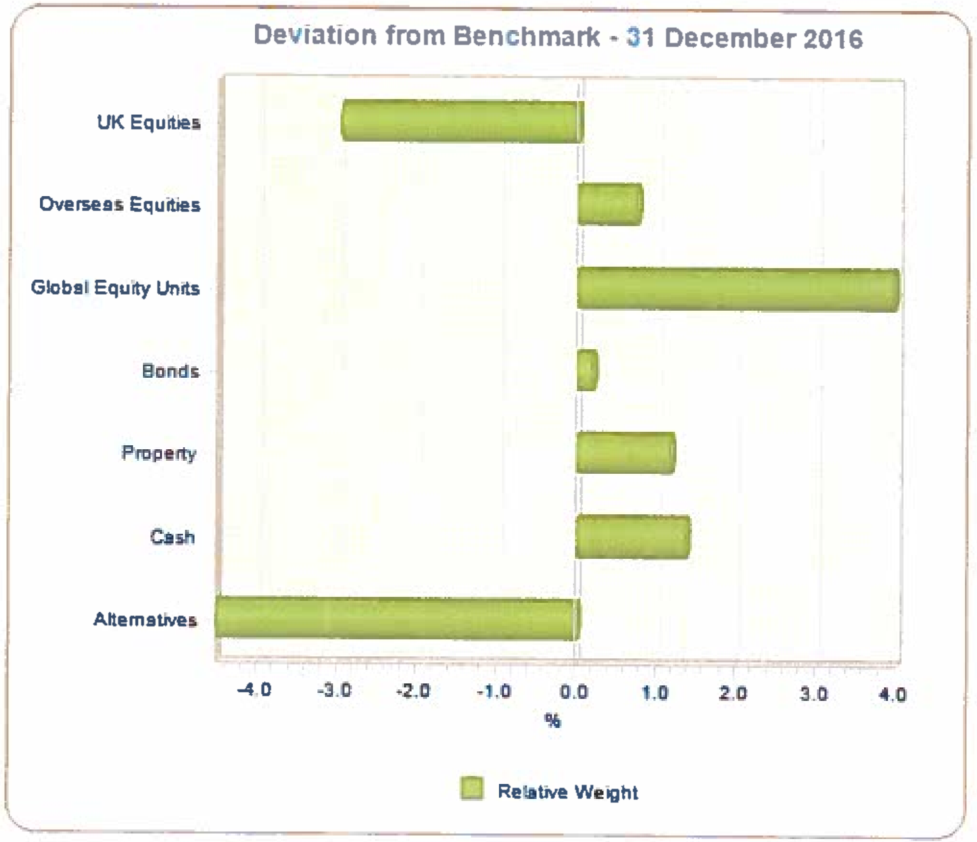
Manager Allocation - 3 Months Ending 31 December 2016



Manager	Weight (%)
Fidelity	11.19
Standard Life	10.49
Baillie Gifford GA	19.62
Liability Matching Bonds	14.62
Baillie Gifford LTGG	12.79
ECM Asset Management	3.22
Standard Life Divers Growth	4.86
Newton Diversified Growth	3.85
LGIM Property	2.15
Hermes	1.14
Threadneedle	5.09
Cash Account	0.55
Veritas	5.08
Dodge & Cox	5.07
Bluebay	0.26

Fund Allocation - Relative Analysis





	UK Equities	Overseas Equities	Global Equity Units	Bonds	Property	Cash	Alternatives
Portfolio	9.63	11.55	42.57	14.30	8.38	1.38	12.19
Benchmark	12.60	10.80	38.60	14.10	7.20		16.70
Relative Weight	-2.97	0.75	3.97	0.20	1.18	1.38	-4.51

Fund Performance

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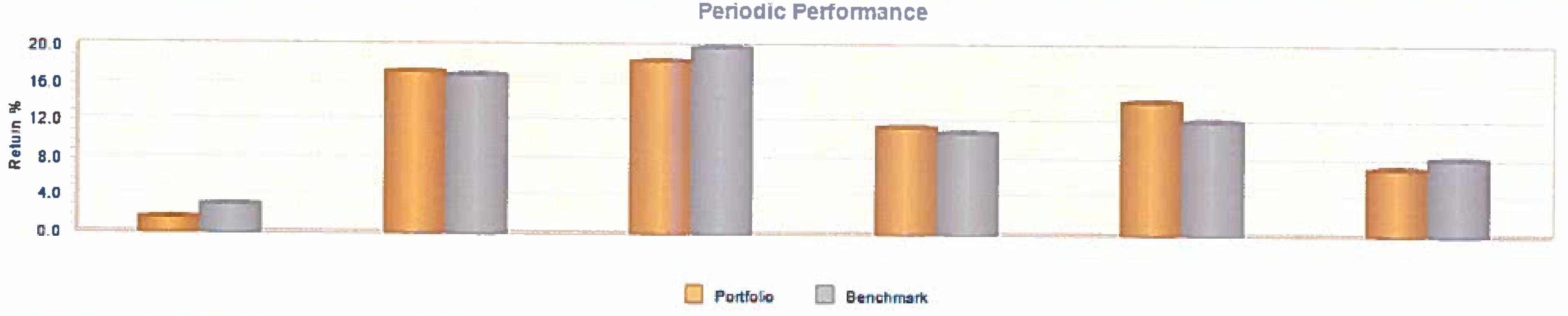
Fund Performance - Summary



	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	5 Years (Ann)	Since Inception (Ann)
Portfolio	1.65	17.28	18.48	11.50	14.32	7.34
Benchmark	3.11	16.97	19.97	11.10	12.18	8.26

Inception Date: 31 Jan 2002

Ann = Annualised

Fund Performance - Segment Analysis

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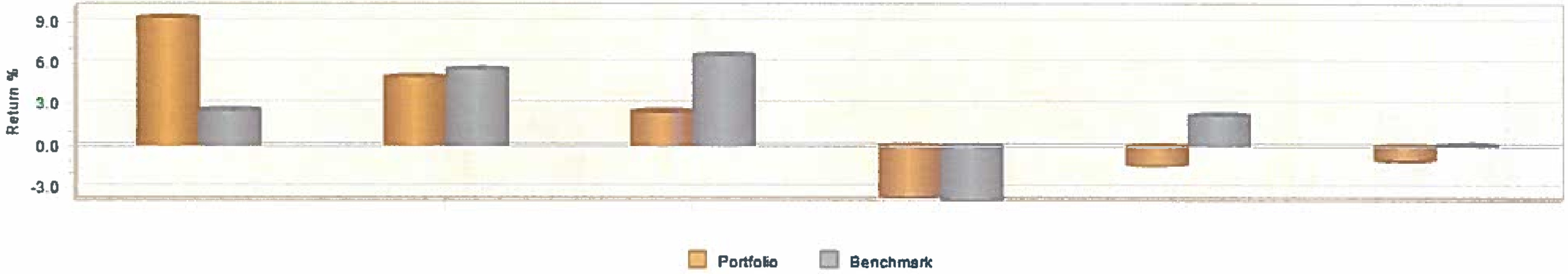
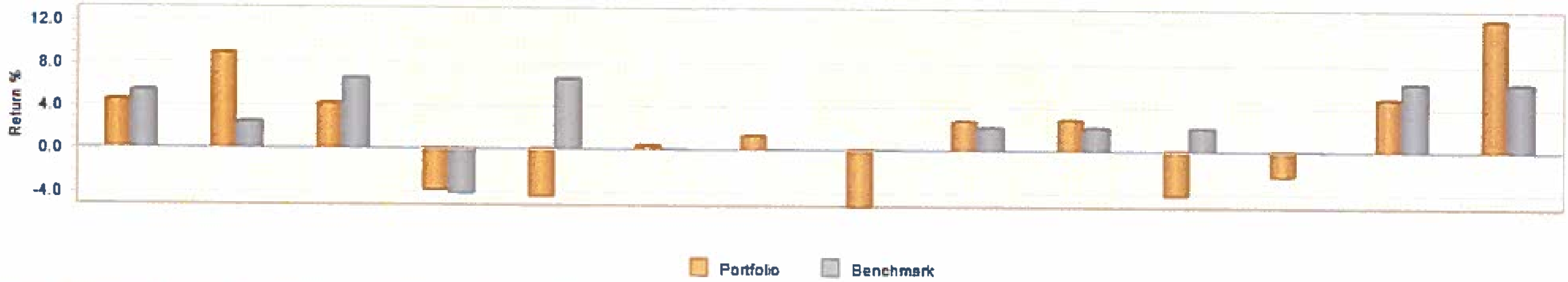
Segment Performance - 3 Months Ending 31 December 2016



	UK Equities	Overseas Equities	Global Equity Units	Bonds	Property	Alternatives
Portfolio	9.28	4.99	2.53	-3.68	-1.39	-0.98
Benchmark	2.58	5.53	6.61	-3.91	2.25	0.07

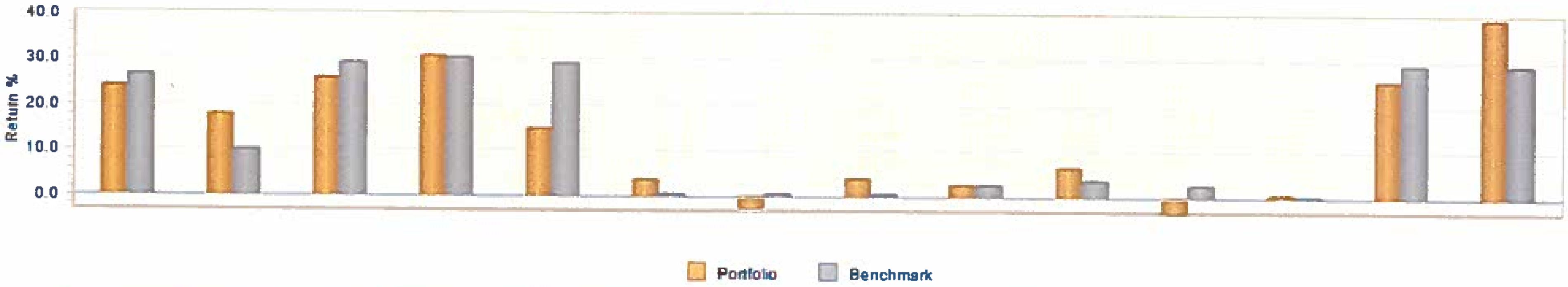
Fund Performance - Manager Overview

Manager Performance - 3 Months Ending 31 December 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	4.68	8.97	4.29	-3.62	-4.21	0.50	1.43	-5.11	2.79	3.02	-3.97	-2.16	5.04	12.39
Benchmark	5.53	2.58	6.66	-3.91	6.66	0.07	0.07	0.07	2.26	2.23	2.26	0.03	6.50	6.50

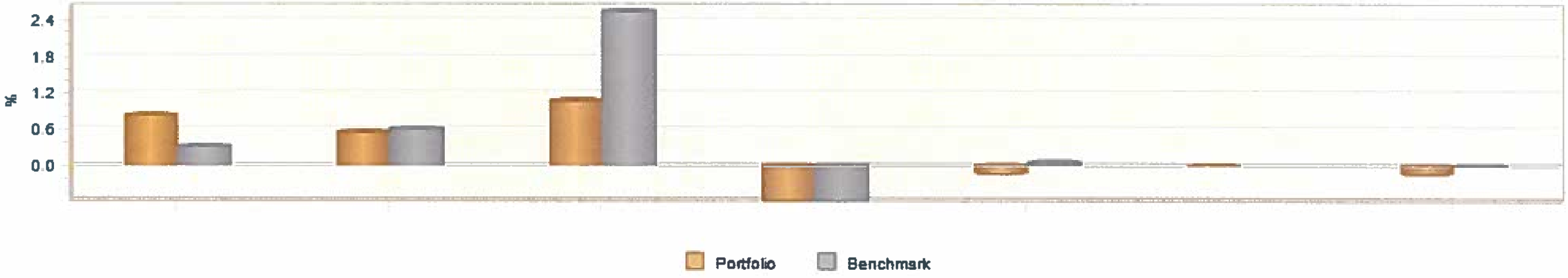
Manager Performance - 1 Year Ending 31 December 2016



	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	24.05	17.94	25.96	31.00	15.09	3.80	-2.46	4.11	2.57	6.43	-3.29	0.50	25.84	39.76
Benchmark	26.76	9.94	29.56	30.64	29.56	0.42	0.42	0.42	2.77	3.66	2.77	0.28	29.40	29.40

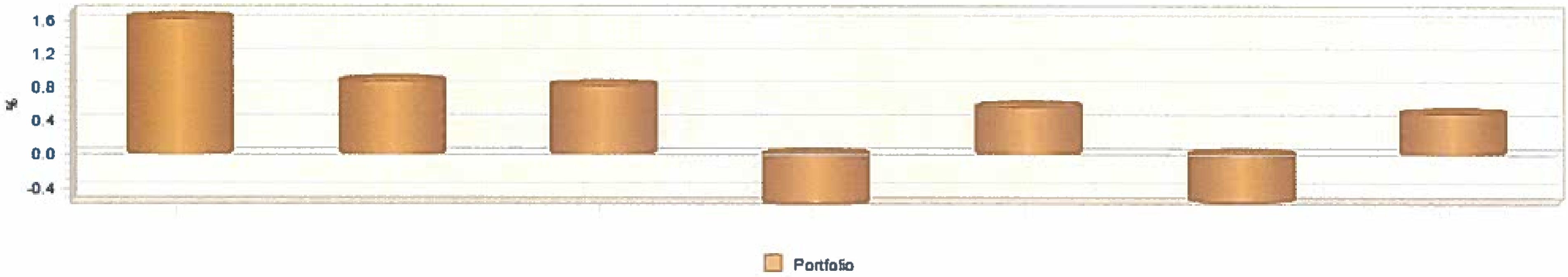
Fund Performance - Contribution Analysis

Source of Contribution - Quarter to 31 December 2016



	UK Equities	Overseas Equities	Global Equity Units	Bonds	Property	Cash	Alternatives
Portfolio	0.84	0.55	1.07	-0.56	-0.12	0.00	-0.12
Benchmark	0.33	0.60	2.54	-0.55	0.07		0.01

Top 5 Manager Contribution - Quarter to 31 December 2016



	Total Consolidation	Standard Life	Baillie Gifford GA	Baillie Gifford LTGG	Dodge & Cox	M&G	Remaining Managers
Portfolio	1.65	0.88	0.82	-0.58	0.57	-0.56	0.51

Risk Profile

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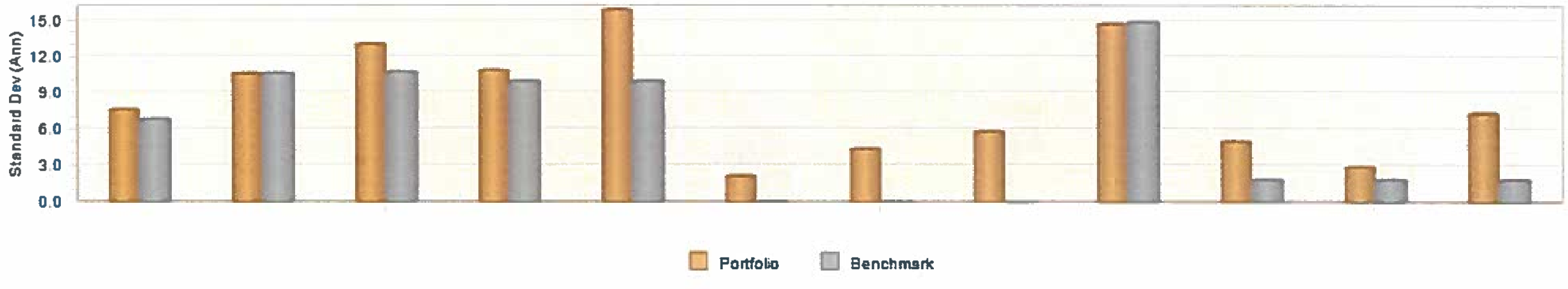
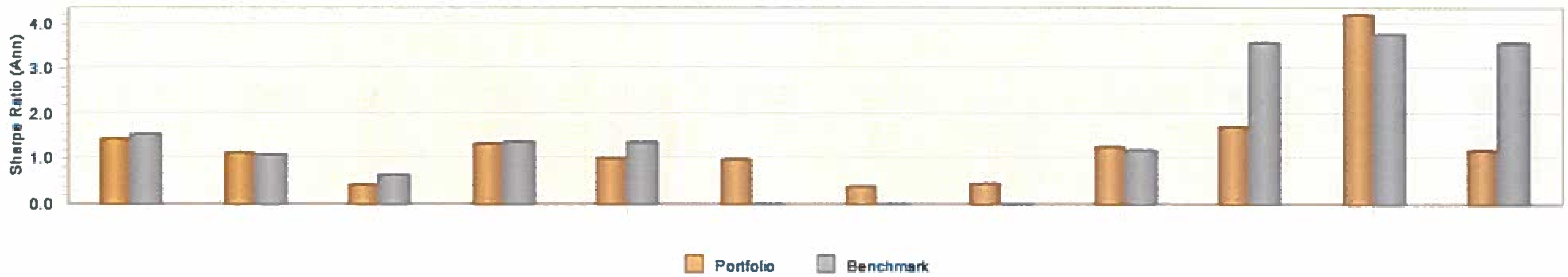
Risk Profile - Historic Risk

Standard Deviation - 3 Years (Ann) to 31 December 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	7.58	10.50	12.99	10.84	15.84	2.07	4.27	5.70	14.73	4.96	2.86	7.24
Benchmark	6.73	10.51	10.64	9.94	9.94	0.02	0.02	0.02	14.77	1.80	1.81	1.80

Sharpe Ratio - 3 Years (Ann) to 31 December 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	1.42	1.11	0.43	1.32	1.01	0.97	0.38	0.45	1.25	1.72	4.21	1.18
Benchmark	1.53	1.09	0.62	1.37	1.37	0.00	0.00	0.00	1.18	3.58	3.78	3.58

Ann = Annualised

Risk Profile - Historic Risk

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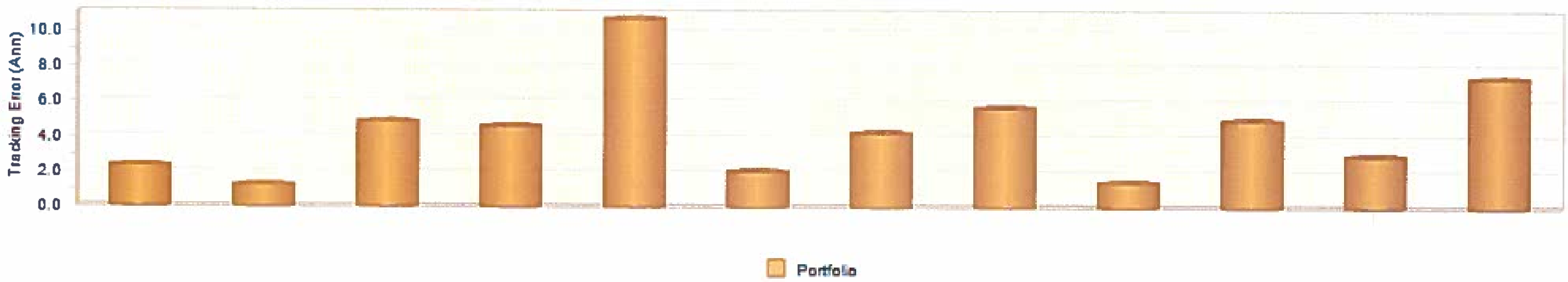
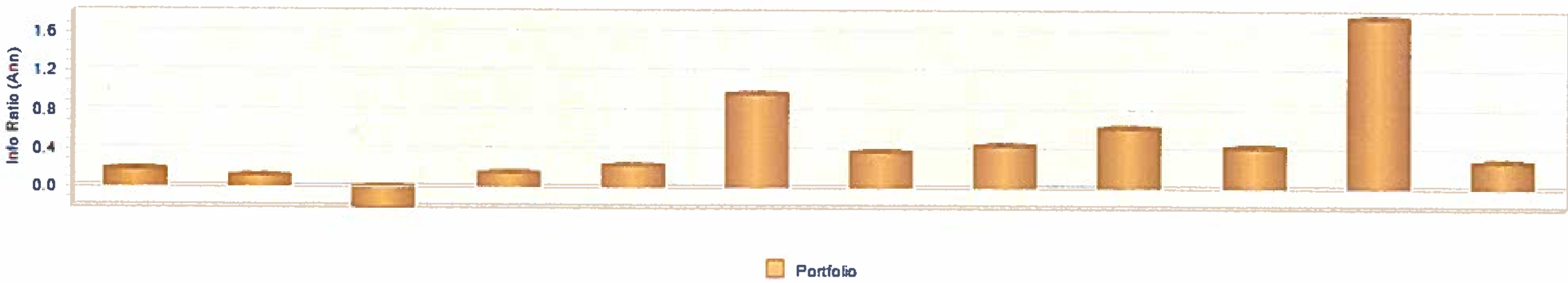
Tracking Error - 3 Years (Ann) to 31 December 2016



	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	2.38	1.28	4.83	4.56	10.72	2.07	4.28	5.69	1.47	4.96	2.94	7.36

Information Ratio - 3 Years (Ann) to 31 December 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	0.18	0.12	-0.21	0.15	0.23	0.97	0.38	0.45	0.63	0.43	1.77	0.29

Ann = Annualised

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Risk Profile - Consistency Analysis

Manager	Active Number of Months	Number of Positive Months	Consistency Rate (%)	Benchmark Consistency (%)	Outperformance (%)
Total Consolidation	180	117	65	67	55
Fidelity	98	63	64	51	52
Standard Life	123	70	57	40	56
Baillie Gifford GA	123	77	63	45	55
Amundi	125	73	58		
Baillie Gifford LTGG	124	74	60	44	52
ECM Asset Management	138	91	66	57	62
Standard Life Divers Growth	46	29	63	100	61
Newton Diversified Growth	46	25	54	100	54
M&G	61	34	56	61	56
LGIM Property	49	43	88	82	61
Hermes	58	45	78	79	57
Threadneedle	55	48	87	81	67
Veritas	21	12	57	67	48
Dodge & Cox	21	14	67	67	43
Bluebay	1	0	0	100	0

Fund Profile

Fund Profile - Movement of Funds

Manager Name	Market Value 30-Sep-2016 (000's)	Net Contributions (000's)	Income (000's)	Gain/Loss (000's)	Market Value 31-Dec-2016 (000's)	% Change
Total Consolidation	**2,800,629.42**	**2,380.26**	**4,176.98**	**42,119.56**	**2,849,306.22**	**1.74**
Total Consolidation	2,800,629.42	2,380.26	4,176.98	42,119.56	2,849,306.22	1.74
Fidelity	304,633.28	0.00	1,502.09	12,743.20	318,878.57	4.68
Standard Life	274,376.72	0.00	1,614.22	22,990.57	298,981.52	8.97
Baillie Gifford GA	536,165.43	0.00	0.00	23,009.43	559,174.86	4.29
Baillie Gifford LTGG	380,529.17	0.00	0.00	-16,003.67	364,525.50	-4.21
ECM Asset Management	133,118.70	-41,892.95	0.00	531.22	91,756.97	-31.07
Standard Life Divers Growth	136,513.06	0.00	0.00	1,953.71	138,466.77	1.43
Newton Diversified Growth	115,536.91	0.00	0.00	-5,901.83	109,635.08	-5.11
M&G	432,513.61	-186.50	769.50	-16,418.17	416,678.44	-3.66
LGIM Property	59,599.41	0.00	0.00	1,660.74	61,260.15	2.79
Hermes	31,925.77	-312.13	312.13	646.71	32,572.48	2.03
Threadneedle	150,939.37	0.00	0.00	-5,988.85	144,950.52	-3.97
Cash Account	-21,641.73	37,248.93	-21.86	18.76	15,604.10	-172.10
Veritas	137,739.41	0.00	0.00	6,944.53	144,683.94	5.04
Dodge & Cox	128,599.54	0.00	0.00	15,933.22	144,532.76	12.39
Bluebay		7,549.91	0.00	0.00	7,549.92	

Manager Analysis

Manager Analysis - Total Consolidation

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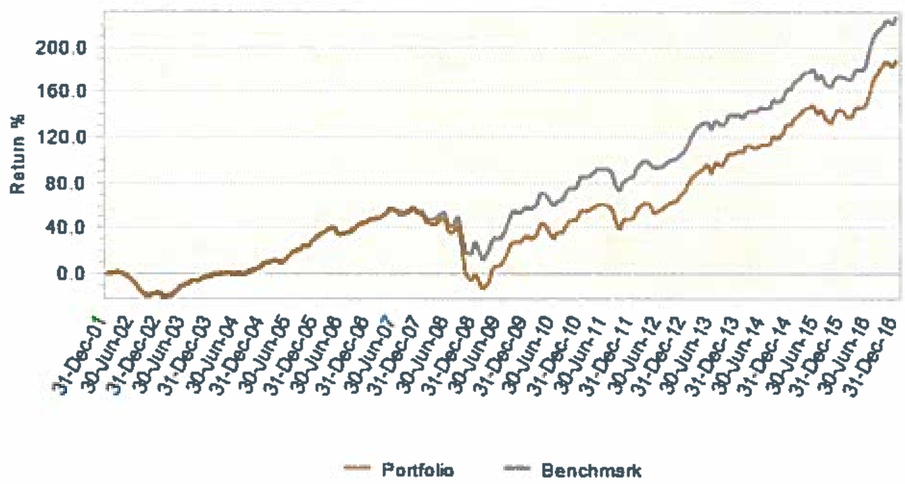

Inception Date: 31 Jan 2002

Portfolio Size and Mandate

Portfolio Size (GBP)	Portfolio Mandate
2,849,306,220	Total Plan

Allocation - 31 December 2016

	UK Equities	Overseas Equities	Global Equity	Bonds	Property	Cash	Alternative
Portfolio	9.63	11.55	42.57	14.30	8.38	1.38	12.19
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	1.7	17.3	18.5	11.5	14.3	7.3
Benchmark	3.1	17.0	20.0	11.1	12.2	8.3

Summary - 3 Months Ending 31 December 2016

The fund's relative performance of the Quarter and 1 Year was -1.4% and -1.5% respectively.

Risk Profile - 3 Years (Ann) to 31 December 2016

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	7.6	1.4	2.4	0.2
Benchmark	6.7	1.5		

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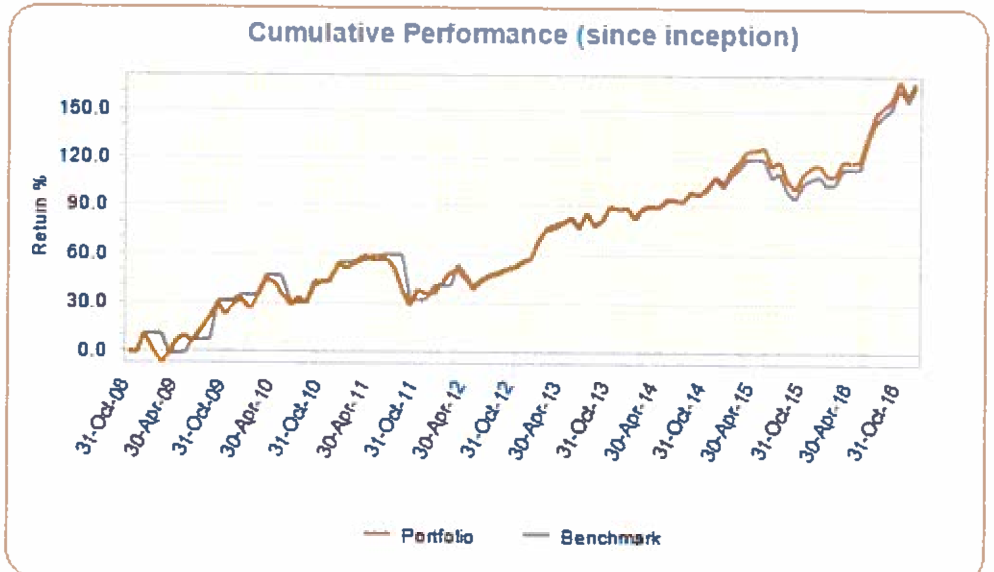
Manager Analysis - Fidelity



Inception Date: 30 Nov 2008

Portfolio Size and Mandate

Portfolio Size (GBP)	Portfolio Mandate
318,878,574	Global Equities

Allocation - 31 December 2016

	UK Equities	Overseas Equities	Cash
Portfolio	0.21	98.78	1.01
Benchmark			

Periodic Performance

	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	5 Years (Ann)	Since Inception
Portfolio	4.7	22.7	24.0	12.2	14.5	12.8
Benchmark	5.5	23.8	26.8	12.0	13.6	12.7

Summary - 3 Months Ending 31 December 2016

The manager's relative performance of the Quarter and 1 Year was -0.8% and -2.8% respectively.

Risk Profile - 3 Years (Ann) to 31 December 2016

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	10.5	1.1	1.3	0.1
Benchmark	10.5	1.1		

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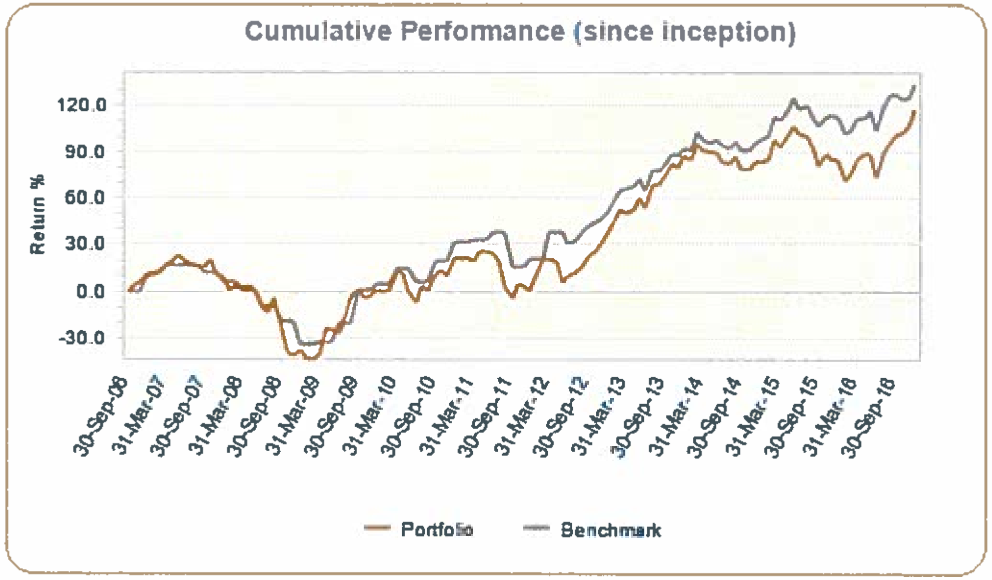
Manager Analysis - Standard Life



Inception Date: 31 Oct 2006

Portfolio Size and Mandate

Portfolio Size (GBP)	Portfolio Mandate
298,981,521	UK Equities

Allocation - 31 December 2016

	UK Equities	Overseas Equities	Cash
Portfolio	91.52	4.75	3.74
Benchmark	100.00		

Periodic Performance

	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	5 Years (Ann)	Since Inception
Portfolio	9.0	17.9	17.9	5.3	16.6	7.9
Benchmark	2.6	10.4	9.9	6.7	14.2	8.7

Summary - 3 Months Ending 31 December 2016

The manager's relative performance of the Quarter and 1 Year was 6.4% and 8.0% respectively.

Risk Profile - 3 Years (Ann) to 31 December 2016

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	13.0	0.4	4.8	-0.2
Benchmark	10.6	0.6		

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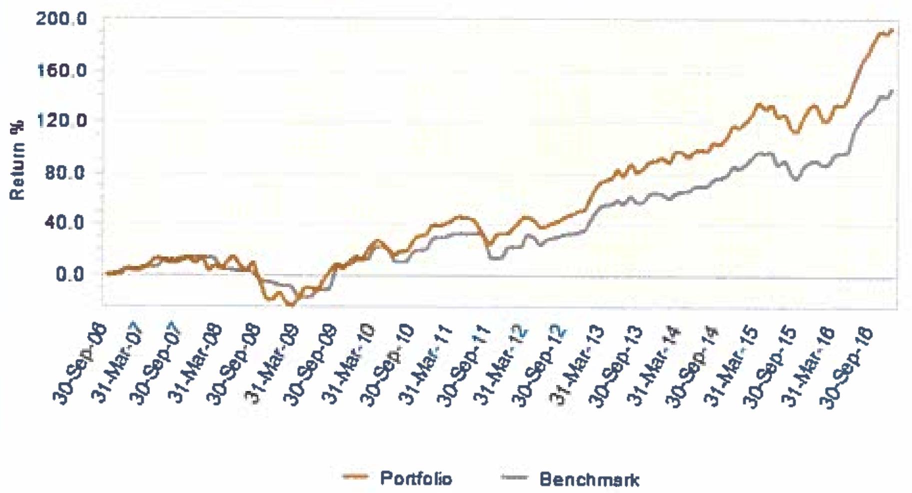
Manager Analysis - Baillie Gifford GA

Cumulative Performance (since inception)



Inception Date: 31 Oct 2006

Portfolio Size and Mandate

Portfolio Size (GBP)	Portfolio Mandate
559,174,859	Global Equities

Allocation - 31 December 2016

	Global Equity Units	Cash
Portfolio	100.00	0.00
Benchmark	100.00	

Periodic Performance

	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	5 Years (Ann)	Since Inception
Portfolio	4.3	25.4	26.0	15.1	17.3	11.1
Benchmark	6.7	25.8	29.6	14.5	15.3	9.2

Summary - 3 Months Ending 31 December 2016

The manager's relative performance of the Quarter and 1 Year was -2.4% and -3.6% respectively.

Risk Profile - 3 Years (Ann) to 31 December 2016

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	10.8	1.3	4.6	0.1
Benchmark	9.9	1.4		

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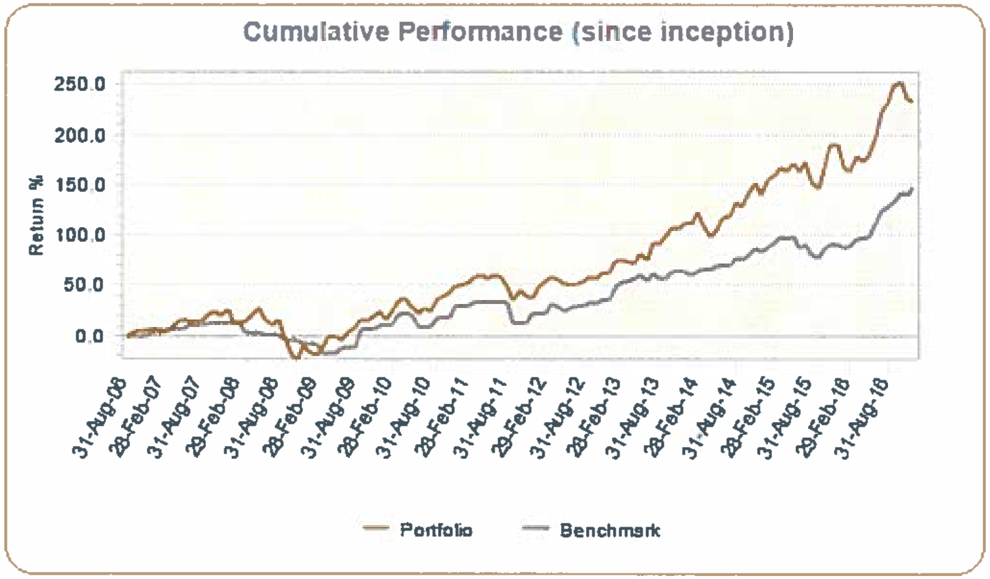
Manager Analysis - Baillie Gifford LTGG



Inception Date: 30 Sep 2006

Portfolio Size and Mandate

Portfolio Size (GBP)	Portfolio Mandate
364,525,495	Global Equities

Allocation - 31 December 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	-4.2	20.3	15.1	16.4	19.4	12.4
Benchmark	6.7	25.8	29.6	14.5	15.3	

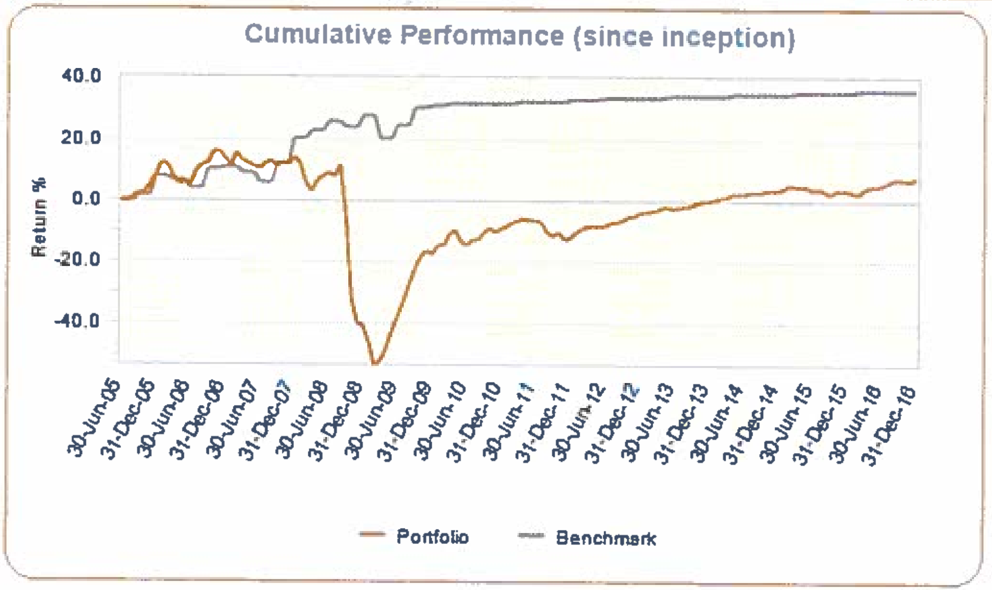
Summary - 3 Months Ending 31 December 2016

The manager's relative performance of the Quarter and 1 Year was -10.9% and -14.5% respectively.

Risk Profile - 3 Years (Ann) to 31 December 2016

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	15.8	1.0	10.7	0.2
Benchmark	9.9	1.4		

Manager Analysis - ECM Asset Management



Inception Date: 31 Jul 2005

Portfolio Size and Mandate

Portfolio Size (GBP)	Portfolio Mandate
91,756,965	Alternatives

Allocation - 31 December 2016

	Alternatives
Portfolio	100.00
Benchmark	100.00

Periodic Performance

	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	5 Years (Ann)	Since Inception
Portfolio	0.5	3.4	3.8	2.5	4.1	0.7
Benchmark	0.1	0.3	0.4	0.5	0.5	2.7

Summary - 3 Months Ending 31 December 2016

The manager's relative performance of the Quarter and 1 Year was 0.4% and 3.4% respectively.

Risk Profile - 3 Years (Ann) to 31 December 2016

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	2.1	1.0	2.1	1.0
Benchmark	0.0	0.0		

Manager Analysis - Standard Life Divers Growth

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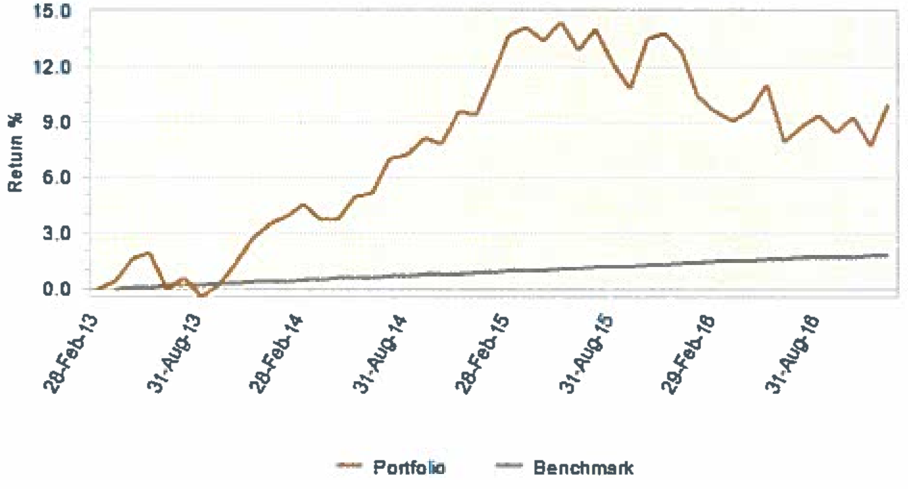

Inception Date: 31 Mar 2013

Portfolio Size and Mandate

Portfolio Size (GBP)	Portfolio Mandate
138,466,768	Diversified Growth

Allocation - 31 December 2016

	Alternatives
Portfolio	100.00
Benchmark	100.00

Periodic Performance

	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	Since Inception (Ann)
Portfolio	1.4	0.8	-2.5	2.0	2.5
Benchmark	0.1	0.3	0.4	0.5	0.5

Summary - 3 Months Ending 31 December 2016

The manager's relative performance of the Quarter and 1 Year was and 1.3% and -2.9% respectively.

Risk Profile - 3 Years (Ann) to 31 December 2016

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	4.3	0.4	4.3	0.4
Benchmark	0.0	0.0		

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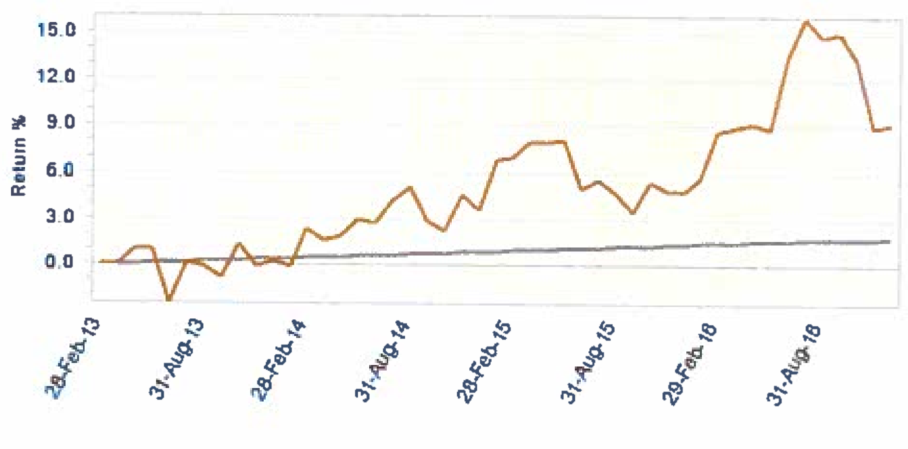
Manager Analysis - Newton Diversified Growth

Cumulative Performance (since inception)



Inception Date: 31 Mar 2013

Portfolio Size and Mandate

Portfolio Size (GBP)	Portfolio Mandate
109,635,076	Diversified Growth

Allocation - 31 December 2016

	Alternatives
Portfolio	100.00
Benchmark	100.00

Periodic Performance

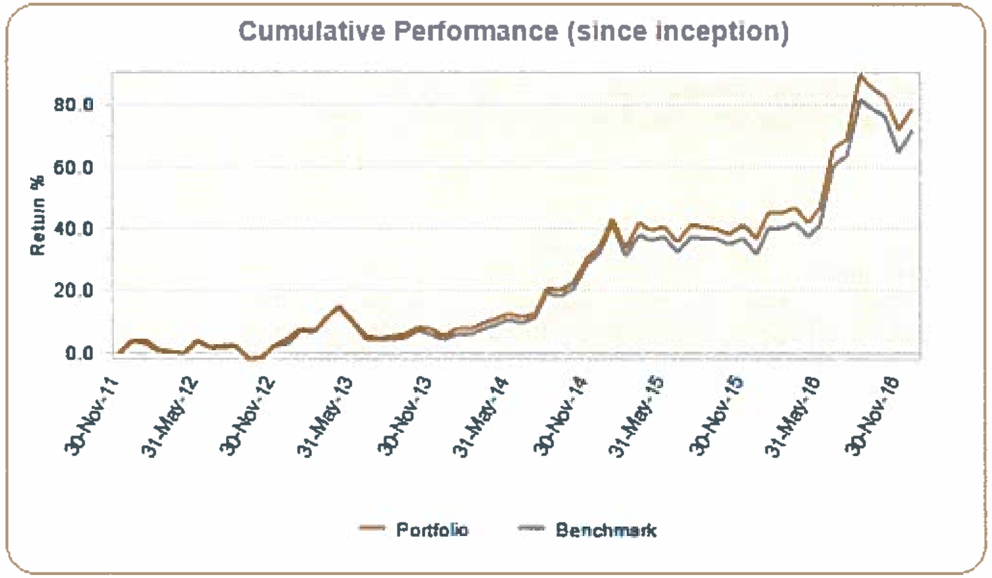
	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	Since Inception (Ann)
Portfolio	-5.1	0.2	4.1	2.9	2.3
Benchmark	0.1	0.3	0.4	0.5	0.5

Summary - 3 Months Ending 31 December 2016

The manager's relative performance of the Quarter and 1 Year was -5.2% and 3.7% respectively.

Risk Profile - 3 Years (Ann) to 31 December 2016

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	5.7	0.4	5.7	0.4
Benchmark	0.0	0.0		



Inception Date: 31 Dec 2011

Portfolio Size and Mandate

Portfolio Size (GBP)	Portfolio Mandate
416,678,439	Global Bonds

Allocation - 31 December 2016

	Bonds	Cash
Portfolio	97.75	2.25
Benchmark		

Periodic Performance

	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	5 Years (Ann)	Since Inception
Portfolio	-3.6	21.8	31.0	19.4	11.5	12.1
Benchmark	-3.9	21.4	30.6	18.3	10.7	11.3

Summary - 3 Months Ending 31 December 2016

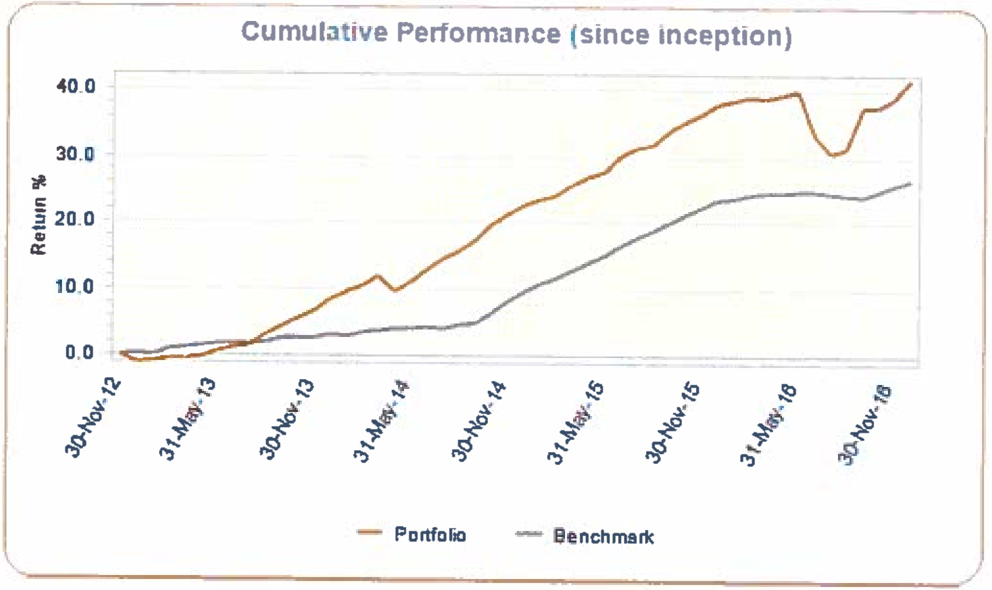
The manager's relative performance of the Quarter and 1 Year was 0.3% and 0.4% respectively.

Risk Profile - 3 Years (Ann) to 31 December 2016

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	14.7	1.2	1.5	0.6
Benchmark	14.8	1.2		

BNY MELLON
ASSET SERVICING

Manager Analysis - LGIM Property



Inception Date: 31 Dec 2012

Portfolio Size and Mandate

Portfolio Size (GBP)	Portfolio Mandate
61,260,155	Property

Allocation - 31 December 2016

	Property
Portfolio	100.00
Benchmark	100.00

Periodic Performance

	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	Since Inception (Ann)
Portfolio	2.8	2.1	2.6	9.3	8.9
Benchmark	2.3	1.7	2.8	7.1	6.0

Summary - 3 Months Ending 31 December 2016

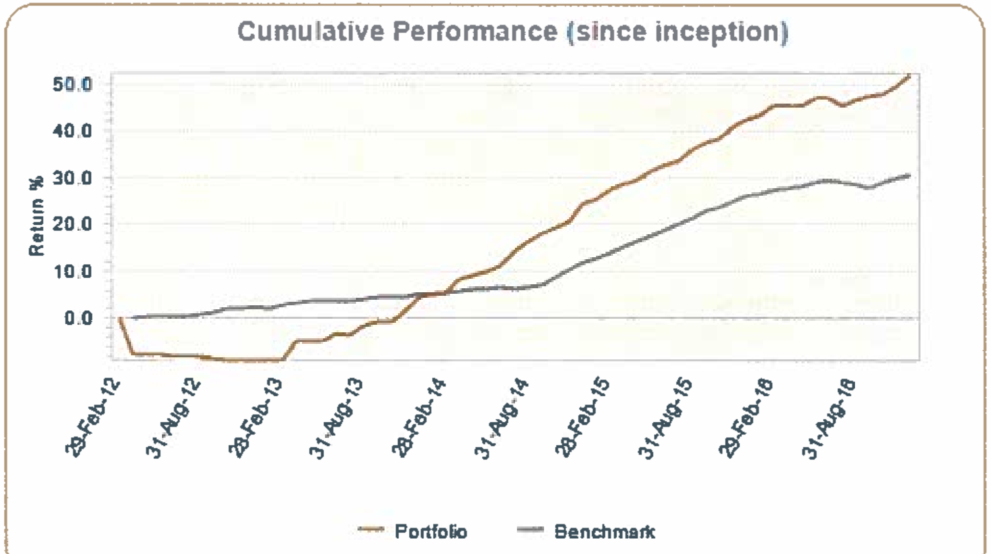
The manager's relative performance of the Quarter and 1 year was 0.5% and -0.2% respectively.

Risk Profile - 3 Years (Ann) to 31 December 2016

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	5.0	1.7	5.0	0.4
Benchmark	1.8	3.6		

BNY MELLON
ASSET SERVICING

Manager Analysis - Hermes



Inception Date: 31 Mar 2012

Portfolio Size and Mandate

Portfolio Size (GBP)	Portfolio Mandate
32,572,483	Property

Allocation - 31 December 2016

	Property
Portfolio	100.00
Benchmark	100.00

Periodic Performance

	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	Since Inception (Ann)
Portfolio	3.0	4.5	6.4	13.2	9.0
Benchmark	2.2	2.4	3.7	7.6	5.8

Summary - 3 Months Ending 31 December 2016

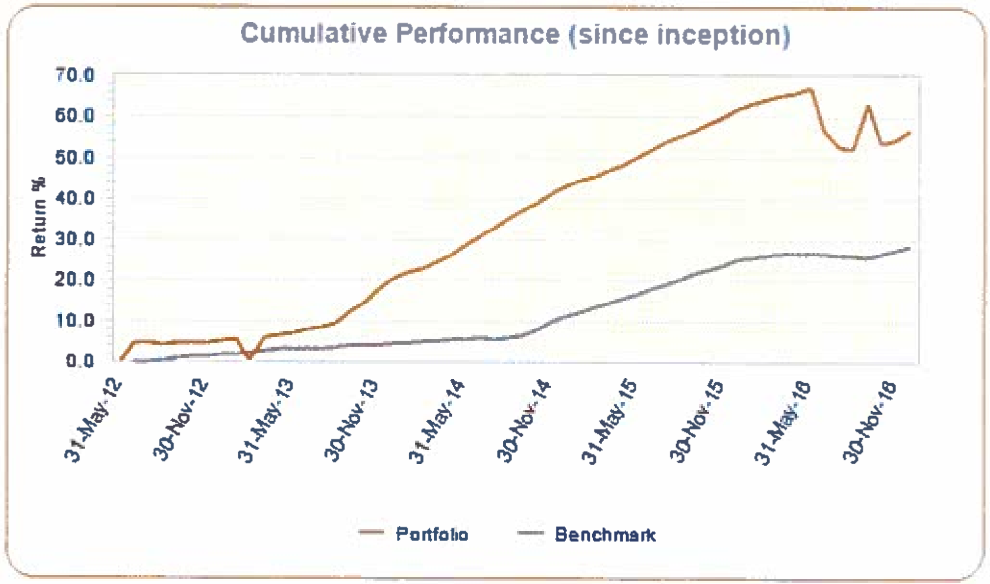
The manager's relative performance of the Quarter and 1 Year was 0.8% and 2.7% respectively.

Risk Profile - 3 Years (Ann) to 31 December 2016

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	2.9	4.2	2.9	1.8
Benchmark	1.8	3.8		

BNY MELLON
ASSET SERVICING

Manager Analysis - Threadneedle



Inception Date: 30 Jun 2012

Portfolio Size and Mandate

Portfolio Size (GBP)	Portfolio Mandate
144,950,520	Property

Allocation - 31 December 2016

	Property
Portfolio	100.00
Benchmark	100.00

Periodic Performance

	Quarter	Fiscal Year To Date	1 Year	3 Years (Ann)	Since Inception (Ann)
Portfolio	-4.0	-5.2	-3.3	9.1	10.3
Benchmark	2.3	1.7	2.8	7.1	5.8

Summary - 3 Months Ending 31 December 2016

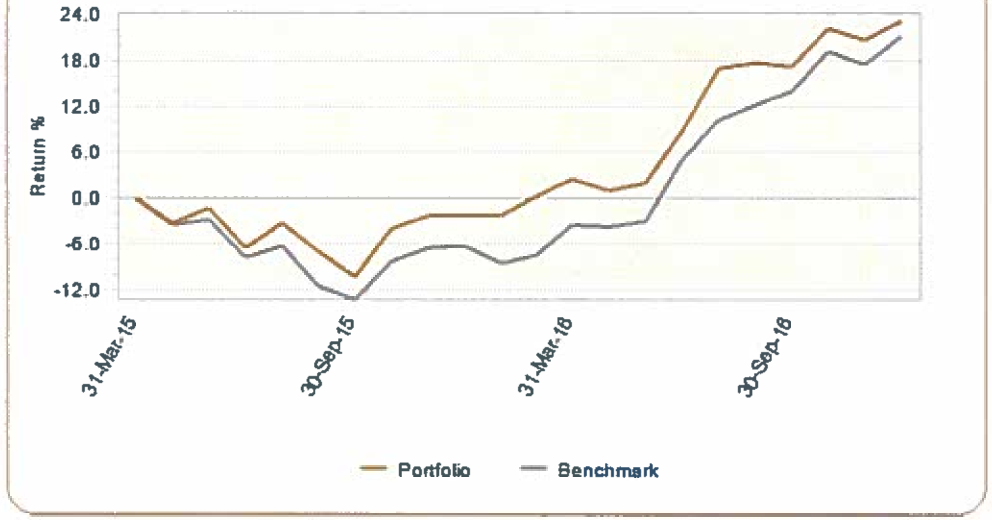
The manager's relative performance of the Quarter and 1 Year was -6.3% and -6.1% respectively.

Risk Profile - 3 Years (Ann) to 31 December 2016

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio	7.2	1.2	7.4	0.3
Benchmark	1.8	3.6		

BNY MELLON
ASSET SERVICING

Manager Analysis - Veritas



Inception Date: 30 Apr 2015

Portfolio Size and Mandate

Portfolio Size (GBP)	Portfolio Mandate
144,683,944	Global Equities

Allocation - 31 December 2016

	Global Equity Units
Portfolio	100.00
Benchmark	100.00

Periodic Performance

	Quarter	Fiscal Year To Date	1 Year	Since Inception (Ann)
Portfolio	5.0	20.2	25.8	12.6
Benchmark	6.5	25.7	29.4	11.7

Summary - 3 Months Ending 31 December 2016

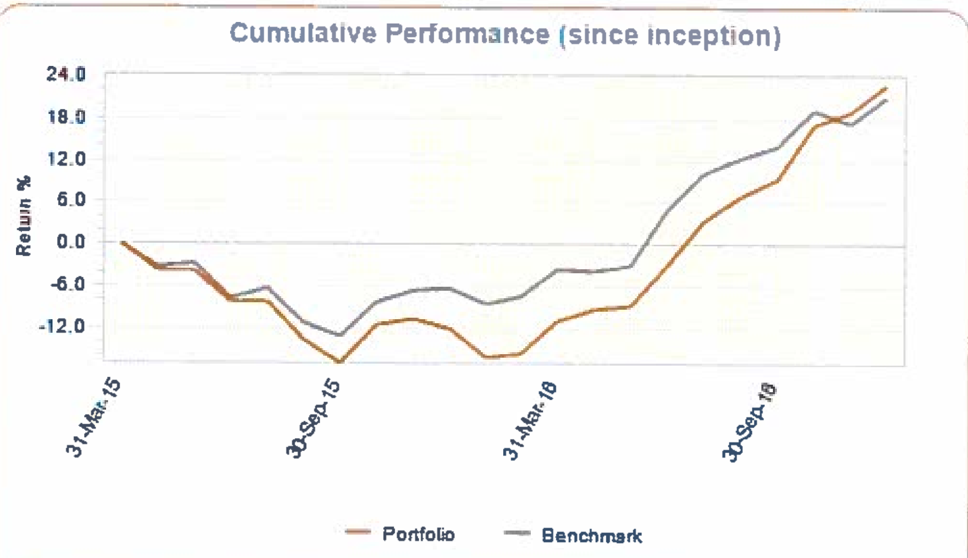
The manager's relative performance of the Quarter and 1 Year was -1.5% and -3.6% respectively.

Risk Profile - 3 Years (Ann) to 31 December 2016

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio				
Benchmark				

BNY MELLON
ASSET SERVICING

Manager Analysis - Dodge & Cox



Inception Date: 30 Apr 2015

Portfolio Size and Mandate

Portfolio Size (GBP)	Portfolio Mandate
144,532,758	Global Equities

Allocation - 31 December 2016

	Global Equity Units
Portfolio	100.00
Benchmark	100.00

Periodic Performance

	Quarter	Fiscal Year To Date	1 Year	Since Inception (Ann)
Portfolio	12.4	38.0	39.8	12.6
Benchmark	6.5	25.7	29.4	11.7

Summary - 3 Months Ending 31 December 2016

The manager's relative performance of the Quarter and 1 Year was 5.9% and 10.4% respectively.

Risk Profile - 3 Years (Ann) to 31 December 2016

	Standard Deviation	Sharpe Ratio	Tracking Error	Information Ratio
Portfolio				
Benchmark				

Appendix

Appendix - Glossary

BNY MELLON
ASSET SERVICING

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 thebenchmark.

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

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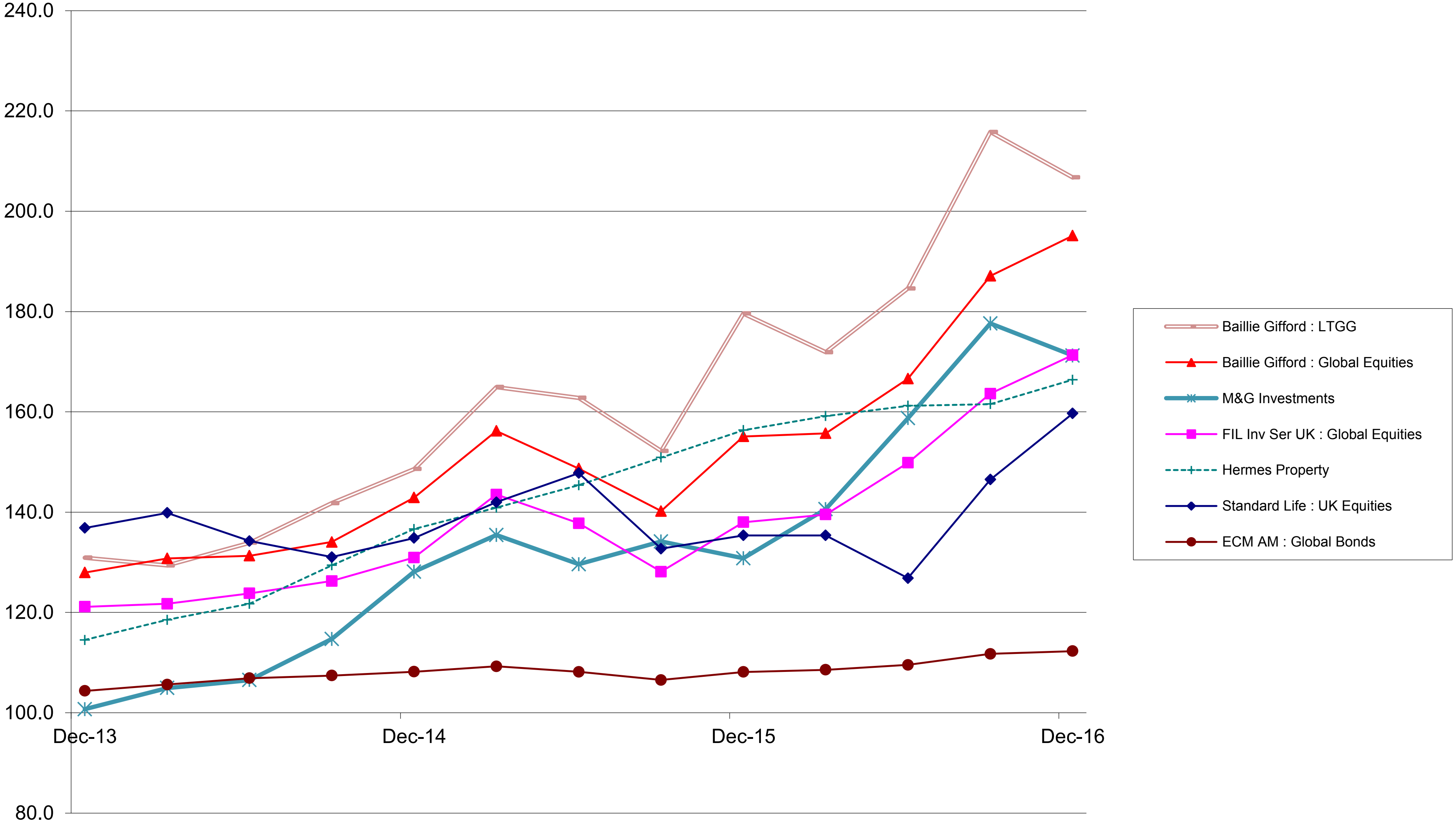
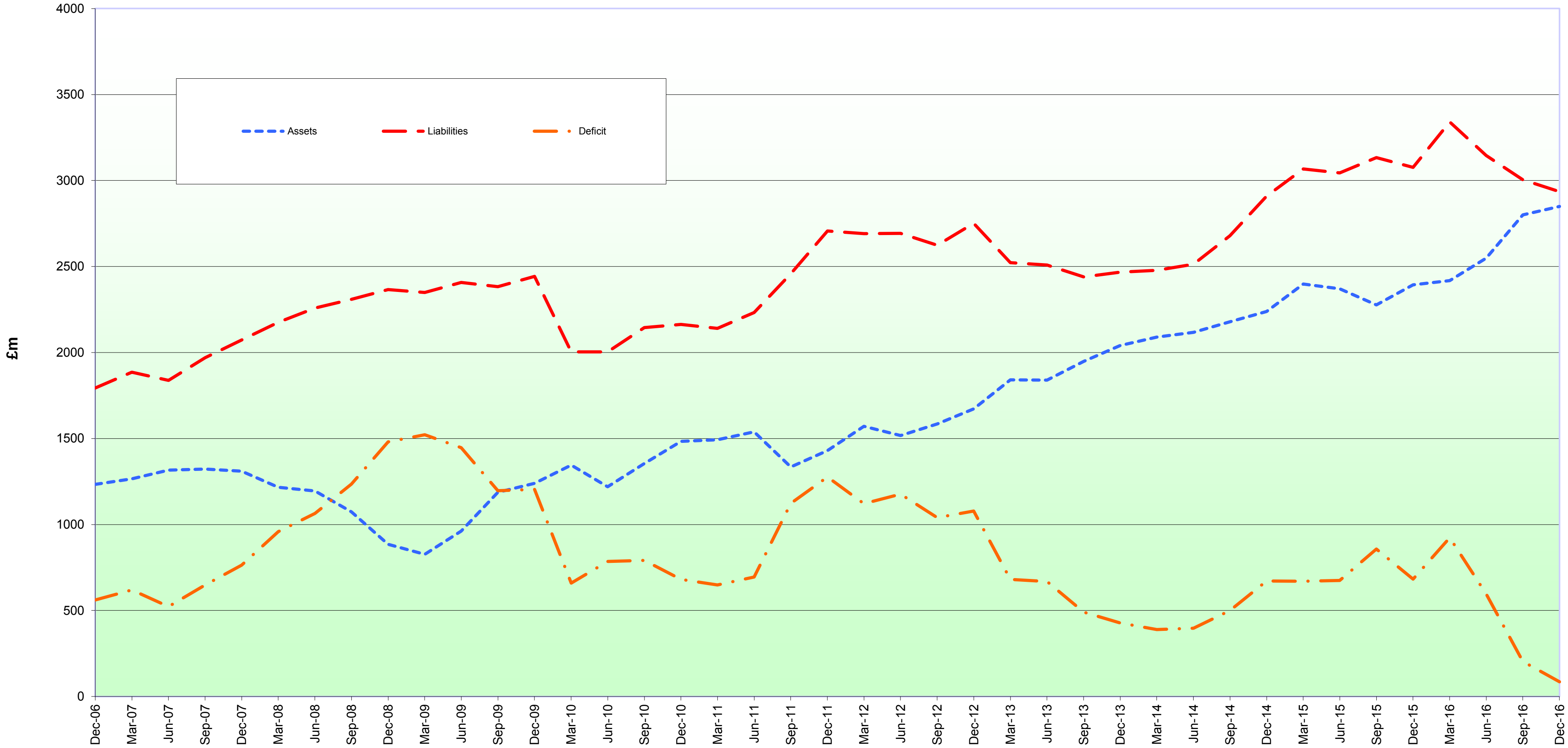
Investment Manager Performance - cumulative absolute performance 3 years to December 2016



Appendix 2

North Yorkshire Pension Fund
Assets, Liabilities and Deficit



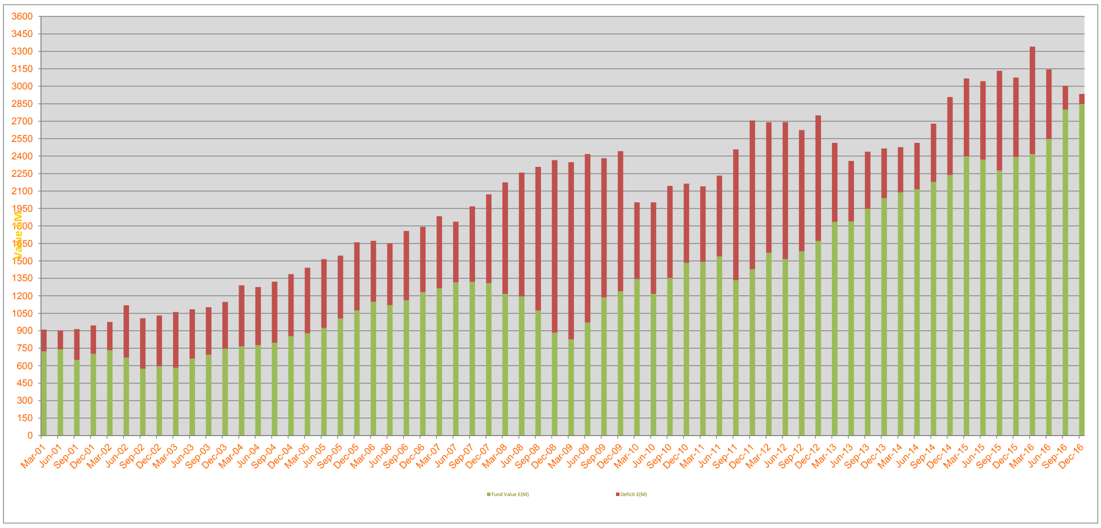
Appendix 3

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	4,903
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	778	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	66%	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
December 31, 2016	97%	86	2849	7,143

Triennial valuation results highlighted in grey

Movement in Assets and Liabilities



NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

23 FEBRUARY 2017

GOVERNANCE ARRANGEMENTS

Report of the Treasurer

1.0 **PURPOSE OF REPORT**

1.1 To seek Committee approval of the new Investment Strategy Statement

1.2 To present to the Committee the finding of the Independent Professional Observer on the Fund's governance arrangements

2.0 **INVESTMENT STRATEGY STATEMENT**

2.1 To remind Members, the LGPS (Investment and Management of Funds) Regulations 2016 came into force on 1 November 2016, replacing the 2009 Regulations. A new requirement of these Regulations is that administering authorities are required to maintain and publish an Investment Strategy Statement (ISS) no later than 1 April 2017. This requirement replaces the previous requirement to maintain a Statement of Investment Principles (SIP).

2.2 The purposes of the SIP and the ISS are 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.

2.3 Due to the limited time available to prepare the ISS it has not been possible to share the document with Members until now. As the Regulations require that an approved ISS be published no later than 1 April 2017, this meeting is therefore the only opportunity to seek approval. Members are therefore asked to approve the ISS, subject to any amendments they may wish to make.

2.4 The ISS, attached as **Appendix 1**, has been prepared in accordance with DCLG's "Guidance on Preparing and Maintaining an Investment Strategy Statement" document, attached as **Appendix 2**. This guidance supports the Regulations and goes into some detail about what the ISS should cover. Part 2 of the guidance describes the component parts to be included in the ISS, which are:

1. Investment of money in a wide variety of investments
2. The suitability of particular investments and types of investments
3. The approach to risk, including the ways in which risks are to be measured and managed
4. The approach to pooling investments, including the use of collective investment vehicles and shared services
5. How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments
6. The exercise of rights (including voting rights) attaching to investments

2.5 The guidance for each section includes a summary of requirements identifying the key points the ISS is expected to address. Each section of the ISS with the exception of the approach to pooling investments is based on the Fund's SIP, updated to meet these requirements. The section on pooling is necessarily brief, as the detailed arrangements including the range and characteristics of sub-funds as well as the reporting arrangements to each Pension Fund Committee are still to be worked through. Future iterations of the ISS will include more details as pooling develops.

2.6 The Independent Professional Observer was asked to comment on the ISS. He made a number of observations, particularly in relation to pooling investments and policies which may change through coordinating the approach with partner Funds within Border to Coast Pensions Partnership.

2.7 Specifically, points were made on:

- Setting out the proportion of assets that will be invested through pooling
- Summarising assets that would not be suitable for pooling
- Considering the views of interested parties when making investments decisions based on non-financial factors
- Explaining the approach to social investments
- Reporting on voting activity in the Annual Report
- Statement on investments in entities connected to the Administering Authority
- Statement on persons consulted in relation to the ISS

2.8 The Fund's approach to these issues will become clearer either as pooling arrangements develop or as examples of best practice emerge. Recognising that the ISS is a fluid document, it is anticipated that amendments will be required in due course. The intention is therefore to bring an updated ISS to this Committee for approval at the 6 July 2017 meeting.

3.0 GOVERNANCE COMPLIANCE UPDATE – REPORT OF THE INDEPENDENT PROFESSIONAL OBSERVER

3.1 The remit of the Independent Professional Observer, Peter Scales, is to provide advisory services on governance and compliance to the Committee. To this purpose, he has conducted a review of these arrangements as they operated during each financial year and has made a number of recommendations. Peter will be attending the PFC meeting on 23 February 2017 to present his report.

3.2 This latest report (attached as **Appendix 3**) provides an update of his review of the current governance compliance arrangements for the Fund, and comments on the implementation of pooling arrangements.

3.3 The high governance standards of the fund are described as being maintained and improved, however attention is drawn to regulatory changes as well as changes in the guidance issued by DCLG, tPR and CIPFA which will require careful consideration. The importance of reviewing governance arrangements during the implementation of pooling has also been highlighted.

3.4 There are two specific recommendations in the report.

1. That strategy and policy documents and governance arrangements are kept under review as the new pooling arrangements are finalised and the process of implementation moves forward

2. That the Pension Board works with the Committee and officers to both check and ensure compliance with new regulations and guidance issued over the past six months

3.5 Officers will review arrangements with regard to point 1 and will keep Members updated through future PFC Meetings. Officers will also discuss point 2 with the Chair of the Pension Board with a view to this being added to the Board's work programme.

3.6 A final draft of the FSS was received from Aon on the 17 February 2017 and therefore was not available for review, however it is not anticipated that there will be any issues with either the document's compliance with legislative requirements or its content.

4.0 RECOMMENDATIONS

4.1 Subject to any changes agreed at the meeting, Members approve the Investment Strategy Statement in **Appendix 1**.

4.2 Members note the report of the Independent Professional Observer in **Appendix 3**.

GARY FIELDING
Treasurer
Corporate Director – Strategic Resources
County Hall
Northallerton

14 February 2017

NORTH YORKSHIRE PENSION FUND

INVESTMENT STRATEGY STATEMENT

TABLE OF CONTENTS

1.0 INTRODUCTION

1.1 Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations) requires administering authorities to formulate, publish and maintain an Investment Strategy Statement (ISS). This document is the ISS of the North Yorkshire Pension Fund (NYPF, or the Fund) for which North Yorkshire County Council (the Council) is the administering authority.

1.2 The Council has delegated all its functions as the administering authority of NYPF to the Pension Fund Committee (PFC, or the Committee). The Corporate Director - Strategic Resources, who reports to the Chief Executive, has day to day control of the management of all aspects of the Fund's activities.

1.3 The Committee determines the investment policy of the Fund and has ultimate responsibility for the investment strategy. The Committee undertakes its responsibilities after taking appropriate advice from external advisers.

1.4 The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement.

2.0 OBJECTIVES OF THE FUND

2.1 The primary objective of the Fund is to provide pension benefits for members upon retirement and/or benefits on death for their dependents, on a defined benefits basis. Investments will therefore be selected with the aim of fully funding these benefit requirements over an extended number of years. The funding position will be reviewed at each Triennial Valuation with adjustments to the investment strategy, asset allocation and to investments with investment managers as required.

2.2 The investment objective of the Fund is to provide for sufficient capital growth of the Fund's assets in a range of market conditions, supplemented by employee and employer contribution income, to meet the cost of benefits as they fall due. It is translated into a suitable strategic asset allocation benchmark designed to address the nature of the Fund's liabilities, and deliver returns over the long term including through periods of volatility in financial markets.

3.0 INVESTMENT OF MONEY IN A WIDE VARIETY OF INVESTMENTS

3.1 The Committee reviews the investments of the Fund on a regular basis. The last review of the investment strategy took place in 2013 and there is an ongoing review of the strategy, alongside the 2016 Triennial Valuation, due to be completed in 2017. Additional reviews of individual asset classes have also taken place, with particular regard to diversification and suitability. The Committee receives advice from its Investment Consultant when undertaking such reviews.

3.2 These reviews provide a framework designed to produce the returns the Fund requires over the long term to meet its future liabilities. Each asset class invested in is allocated a range, and rebalancing takes place when values stray beyond them due to market conditions. Further rebalancing may take place based on tactical views of the Fund's advisers.

3.3 The Fund's current strategic asset allocation is set out below. The table also includes the ranges within which the asset allocation may vary without specific reference to the Committee, however in practice the allocation is considered by the Committee each quarter and adjustments made as necessary.

	Minimum %	Benchmark %	Maximum %
Equities	50	62	75
Alternatives	10	20	20
Fixed Income	15	18	30

3.4 The largest proportion of the Fund's investments are in equities which is aimed at growing the value of assets over the long term. Other return seeking asset classes complement this goal, with the allocation to liability matching assets providing a measure of protection against rising liability valuations.

3.5 Each asset class is sub-divided into two or more mandates with different investment managers and operating to different benchmarks, further increasing the diversification of the Fund's investments.

3.6 The most recent changes to the strategy have been the addition of Alternatives, being Property (2012), Diversified Growth Funds (2013) and Private Debt (2016). These asset classes have served to further diversify the Fund's investments, spreading risk and reducing short term volatility.

3.7 Each investment manager operates to a specific benchmark and to specific mandate restrictions appropriate to their process and style, so that in aggregate, their activities are aligned to the overall performance requirements and risk appetite of the Fund. Each manager holds a range of underlying investments which reflects their views relative to their respective benchmarks, as permitted by their mandates.

3.8 The investment management arrangements of the Fund are as follows.

Manager	**Mandate**	**Objective**
Standard Life	UK Equities	To outperform the FSTE 350 (excluding Investment Trusts) Equally Weighted Index by 3% pa over the long term
Baillie Gifford	Global Equities (Global Alpha)	To outperform the FTSE All World Index by 2% over the long term
Baillie Gifford	Global Equities (Long Term Global Growth)	To outperform the FTSE All World Index by 3% over the long term
Dodge & Cox	Global Equities	To outperform the MSCI All Country World Index over a market cycle
Veritas	Global Equities	To outperform CPI + 6% to 10% over the medium term
Fidelity	Overseas Equities	To outperform an MSCI geographically weighted index by 2% pa over the medium term
Newton	Diversified Growth Fund	To outperform LIBOR by 4% over the medium term
Standard Life	Diversified Growth Fund	To outperform LIBOR by 5% over the medium term
Hermes	UK Property	To outperform the IPD Other Balanced Property Funds Index by 0.5% over the medium term
Legal & General	UK Property	To outperform the IPD All Balanced

		Property Funds Index over the medium term
Threadneedle	UK Property	To outperform the IPD All Balanced Property Funds Index by 1% to 1.5% over the medium term
M&G	UK Government Bonds	To outperform liabilities by 0.5%
ECM	European Corporate Bonds	To outperform LIBOR by 3%
BlueBay	Private Debt	
Permira	Private Debt	

4.0 THE SUITABILITY OF PARTICULAR INVESTMENTS AND TYPES OF INVESTMENTS

4.1 The following categories of investment have been approved as suitable for the NYPF.

UK Equities provide a share in the assets and profitability of public companies floated on UK stock exchanges. Capital gains and losses arise as share prices change to reflect investor expectations at the market, sector and stock levels. Income is derived from dividends.

Overseas Equities are similar to UK Equities but allow greater diversification amongst markets, sectors and stocks. Valuations are affected by exposure to movements in the relative value of the foreign currencies in which investments are made against sterling. Exchange rates are likely to reflect differentials in inflation so should not affect returns materially over the long term, but over the short term currency movements may significantly add to or subtract from returns. Equities are expected to provide high returns compared to other asset classes (the "equity-risk premium"); to address the NYPF deficit position a high proportion of assets will be held in equities.

UK Bonds are debt instruments issued by the UK Government and other borrowers. Bonds provide a fixed rate of interest and are usually redeemed at a fixed price on a known future date. Valuations primarily reflect the fixed level of interest, the period to redemption and the overall return demanded by investors. They are vulnerable to rising inflation and correspondingly benefit from falling inflation.

Overseas Bonds are similar to UK Bonds but have exposure to currency exchange rate fluctuations. As with UK bonds they are influenced by local inflation rates.

Index Linked Bonds are bonds that provide interest and a redemption value directly linked to a measure of inflation, usually the Retail Price Index or a similar index. The returns from this asset class act as a useful proxy for movements in liability values.

Diversified Growth Funds are an alternative way of investing in shares, bonds, property and other asset classes. These funds are managed by specialist multi-asset managers and target returns slightly

	below that of equities but with significantly reduced volatility due to the diversification of their constituent parts.
UK Property	is an investment in buildings, indirectly through pooled vehicles. Capital gains and losses occur as prices fluctuate in line with rental levels and investor demand. Income is generated from rents collected from tenants. The nature of rental agreements gives property some of the characteristics of bonds, whilst growth and inflation provide some of the characteristics of equities. It is, therefore, a useful diversifying asset class.
Private Debt	is loan arrangements provided directly to companies over the medium term for an index linked return, significantly above rates charged by commercial banks. Typically they are provided through pooled fund arrangements and require that investors commit funds for a period of 5 to 7 years, with income and capital being returned throughout that time.
Derivative Instruments	such as options and futures are mechanisms through which the Fund can be protected from sudden changes in share prices or exchange rates. Although not income producing they can result in capital gains and losses. They may be used to hedge the Fund's exposure to particular markets.
Cash	is invested in authorised institutions in accordance with the treasury management policy of the Council under the terms of a Service Level Agreement and attracts interest at market rates.

4,2 Each asset class has different return expectations and volatility characteristics. They are blended to produce the optimal investment return while taking an appropriate level of risk. Periodic investment reviews assess whether this blend requires adjustment, including through the addition of new asset classes, to take account of changing market conditions and the evolving asset and liability profile of the Fund. Tactical rebalancing also takes place, as required. All monitoring, reviews and rebalancing is undertaken after taking advice from the Fund's Investment Consultant.

4.3 The 2016 Triennial Valuation was prepared on the basis of an expected real return on assets of 3% over the long term, being a nominal return of 5% assuming CPI inflation to be 2%. This is based on the Fund's current asset mix and assumes no outperformance from active management.

5.0 THE APPROACH TO RISK, INCLUDING THE WAYS IN WHICH RISKS ARE TO BE MEASURED AND MANAGED

5.1 The Fund to aims to achieve its funding objective by taking an appropriate level of risk, through investing a proportion of funds in growth assets. Ongoing monitoring of the risk profile takes place including reassessing its appropriateness through investment strategy reviews and at the quarterly meetings of the PFC when appropriate. Close regard is paid to the ongoing risks which may arise through a developing mismatch, over time, between the assets of the Fund and its liabilities, together with the risks which may arise from any lack of balance/ diversification of the investment of those assets.

5.2 The risk of financial mismatch is that the Fund's assets fail to grow in line with the liabilities. It is managed by the Committee through a review of the assumptions used to calculate the Fund's liabilities at each Triennial Valuation, and an assessment by the Actuary of the Fund's asset allocation strategy of the probability of achieving funding success. This assessment forms the basis for subsequent asset allocation reviews aimed at controlling risk and further improving the funding position.

5.3 Longevity risk and other demographic factors are assessed at each Triennial Valuation. The Committee reviews national and Fund specific trends as part of this process.

5.4 Systemic risk, being the possibility that an event akin to the financial crisis occurs, is mitigated through the diversified nature of the Fund's asset allocation strategy. The Committee has taken steps since 2008 to spread investments across a larger number of asset classes which behave differently in different market conditions. The risks associated with individual asset classes, the combined nature of risks at Fund level are reassessed at each strategy review and changes made as appropriate.

5.5 This diversification across asset classes and across investment managers within each asset class significantly mitigates concentration risk, so that the effect of underperformance of any one asset class or investment manager is minimised. Rebalancing activity prevents departure from the strategic asset allocation benchmark.

5.6 The significant majority of the Fund's assets are invested in liquid investments, so that the risk of illiquidity, being an inability to meet liabilities as a result of a lack of liquid assets, is minimal. The risk is further managed by cashflow forecasting.

5.7 Currency risk is that the Fund's assets, the majority of which are overseas, underperform relative to Sterling. This risk is managed through a periodic assessment of currency exchange rates including receiving advice on the suitability of hedging the major currencies the Fund's assets are denominated in.

5.8 Agreements with the Fund's custodian and investment managers provide protection against fraudulent losses. In addition regular checks are undertaken by independent auditors of the custodian's and investment managers' systems. These organisations have internal compliance teams which also monitor and report on risk.

5.9 The Fund maintains a Risk Register which identifies the key risks, an assessment of the potential impact of each risk should it occur, and the controls and contingency plans in place to mitigate the likelihood and severity of each risk. The Risk Register is reviewed by the PFC annually and by the Pension Board semi-annually.

6.0 THE APPROACH TO POOLING INVESTMENTS, INCLUDING THE USE OF COLLECTIVE INVESTMENT VEHICLES AND SHARED SERVICES

6.1 The Fund is a member of the Border to Coast Pensions Partnership ("BCPP", or "the Pool"). The proposed structure and basis on which the BCPP will operate was set out in the July 2016 submission to Government.

6.2 The key criteria for the assessment of the Pool are that it provides a suitable solution that meets the investment objectives and asset allocation strategy of the Fund and that there is significant financial benefit to joining the arrangements.

6.3 The change in arrangements is that the Pool will be responsible for manager selection and monitoring, which is currently a responsibility of the Committee. The responsibilities for determining the investment strategy and asset allocation strategy will remain with the Committee.

6.4 At the time of preparing this statement the details of the pooling arrangements are being finalised. However it is expected that NYPF's liquid assets will be transitioned into the Pool once suitable sub-funds are in place, and that illiquid investments will be retained by NYPF. New investments will be made through the Pool wherever possible.

6.5 The July 2016 submission to Government of BCPP provided a statement addressing the structure and governance of the Pool, the mechanisms by which the Fund can hold the Pool to account and the services that will be shared or jointly procured. Government approved this approach on 12 December 2016. The Fund has been working with the BCPP to progress arrangements on this basis.

6.6 Arrangements include establishing a Financial Conduct Authority regulated company to manage the assets of BCPP partner Funds. Based on legal advice describing the options on holding shares in this company, BCPP Limited, the Fund will hold all voting and non-voting shares rather than the Council. This is because the purpose of the company is to meet the needs of the BCPP Funds in complying with the regulations on pooling, rather than for a Council specific purpose.

6.7 The Fund will hold the Pool to account through having a representative on the Joint Committee, which as an investor will monitor and oversee the investment operations of BCPP Limited. It will also have a representative on the Shareholder Board, which will as an owner provide oversight and control of the corporate operations of BCPP Limited.

6.8 As the Pool develops and the structure and governance of the Pool are established, the Fund will include this information in future iterations of the ISS.

7.0 HOW SOCIAL, ENVIRONMENTAL OR CORPORATE GOVERNANCE CONSIDERATIONS ARE TAKEN INTO ACCOUNT IN THE SELECTION, NON-SELECTION, RETENTION AND REALISATION OF INVESTMENTS

7.1 The PFC takes the view that its overriding obligation is to act in the best financial interests of the Scheme and its beneficiaries. It is recognised that environmental, social and governance ("ESG") factors can influence long term investment performance and the ability to achieve long term sustainable returns. Therefore, as a responsible investor, the Committee wishes to promote corporate social responsibility, good practice and improved performance amongst all companies in which it invests.

7.2 The Committee considers the financial impact of ESG factors on its investments through regular reporting by the Fund's investment managers. Engagement with company management and voting behaviour are integral to investment processes aimed at improving performance in companies in which they invest.

7.3 As well as delegating the Fund's approach to ESG issues to its investment managers, NYPF is also a member of the Local Authority Pension Fund Forum (LAPFF) which is the UK's leading collaborative shareholder engagement group. This organisation promotes ESG good practice on behalf of over 70 LGPS funds. Its activity acts as a complement to that undertaken by the Fund's investment managers. Any differences in approach are discussed with the Fund's investment managers so that the reasons are fully understood.

7.4 The Fund is compliant with the six principles on investment decision making for occupational pension schemes, as set out in the guidance published by the Chartered Institute of Public Finance and Accountancy in December 2009 called "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles".

8.0 THE EXERCISE OF RIGHTS (INCLUDING VOTING RIGHTS) ATTACHING TO INVESTMENTS

8.1 The Committee has delegated the exercise of voting rights to Pension Investment Research Consultants Limited (PIRC). Votes are executed by PIRC according to predetermined Shareholder Voting Guidelines agreed by the PFC, available on the Fund's website www.nypf.org.uk. These guidelines are aligned to the UK Stewardship Code and to best practice in other jurisdictions. Votes are cast for all UK equities held by the Fund, and for non-UK holdings where practicable. The Fund monitors voting decisions on a regular basis.

8.*2* The Fund adheres to the Stewardship Code as published by the Financial Reporting Council. The Committee will expect both BCPP Ltd and any investment managers appointed by it to also comply with the Stewardship Code.

8.3 The Fund's collective engagement activity through the LAPFF supports the voting activity undertaken by PIRC.

8.4 The Fund aims to adopt the Principles of the Financial Reporting Council's UK Stewardship Code. A Statement of Compliance will be published on the Fund's website in 2017.

23 February 2017

Department for Communities and Local Government

Local Government Pension Scheme

Guidance on Preparing and Maintaining an Investment Strategy Statement

September 2016
Department for Communities and Local Government

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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 regulationsto 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 Govenrment 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

<u>Regulation 7(2) (a) - Investment of money in a wide variety of investments</u>

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.

<u>Summary of requirements</u>

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**

Allenbridge

REPORT PREPARED FOR

North Yorkshire Pension Fund

Meeting of the Pension Fund Committee on 23rd February 2017

Governance Compliance Update

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[Report date: 9th February 2017]

Introduction

I last reported on the governance arrangements for the North Yorkshire Pension Fund to the Committee on 9th July 2015. While I would usually report annually on these matters, the Committee's business has, as with many LGPS funds, been heavily focused on preparing for and responding to the Government's proposals on pooling investment operations. In the circumstances, the need for a formal governance update was less pressing and I have been monitoring the Committee business during the period.

Since my last report and in addition to the focus on pooling, there have been significant developments in regard to governance concerning the issue of revised investment regulations, new DCLG and CIPFA Guidance, and the bedding in of the new local pension board. I refer to these issues in more detail below.

Notwithstanding the upheaval in operational and transitional arrangements faced, the Committee continues to maintain a high standard of governance in the administration of its responsibilities, and to make changes and improvements both to strengthen governance and to adopt industry-wide developments.

Executive overview

- ✓ I have reviewed the business and minutes of Committee meetings since July 2015 and I am satisfied that governance standards are being maintained and improved.

- ✓ There have been significant regulatory changes affecting the governance arrangements which are in the process of implementation.

- ✓ The Pension Board is operating effectively in line with its responsibilities.

- ✓ The new pooling arrangements represent challenges in establishing a workable governance structure for the future, integrating the Committee's existing responsibilities, with those in relation to the Border to Coast Pensions Partnership, and those relating to the Pension Board.

Recommendations

[1] That strategy and policy documents and governance arrangements are kept under review as the new pooling arrangements are finalised and the process of implementation moves forward.

[2] That the Pension Board works with the Committee and officers to both check and ensure compliance with new regulations and guidance issued over the past six months.

Independent governance oversight

The role of governance oversight has changed with the introduction of the Pension Board. While the responsibilities of the Committee in maintaining good governance have not diminished, pension board members now have a responsibility for ensuring compliance with regulations and guidance. In some respects this can lead to duplication of effort and it is important to differentiate the role of the latter in assisting the Scheme Manager to ensure compliance, notwithstanding the statutory responsibilities placed on individual Board members.

At the same time, many of the requirements that I have reported on over the past eight years have become embedded in the Committee's operations, including those most recent ones relating to the annual report. That is not to suggest any complacency but that the focus of governance oversight is changing and can be developed to be as effective and efficient as possible.

For my own part and recognising this change of emphasis, I have adapted my independent review work to cover the Committee and the Pension Board, as well as maintaining a general role of oversight and responsiveness. My role may need to adapt further as new governance frameworks and guidance emerge.

Core business activity

A review of the Committee's core business activity at meetings since July 2015 confirms that governance standards continue to be maintained and improved where necessary, although much of the Committee's and officers' time has been directed to developing pooling arrangements.

As I have indicated above, it has been necessary for the Committee to devote a significant amount of time to the issue of pooling which was introduced by the Government on a tight timetable. Nevertheless, in my view this has not impacted on the Committee's continuing high standards of governance in transacting business.

Annual Report and Accounts

The Committee agreed the report for 2015-16 at its meeting on 15th September, in a form that had been adapted to reflect the CIPFA guidance and is compliant. I would note that there is increasing pressure generally for the pension fund accounts to be produced earlier, i.e. by the end of September in line with the Council's main accounts.

The Committee is in line with this requirement but any move to bring the deadline forward would place added strain on the accounts closing process for the pension fund. This trend may be exacerbated by increasing demands for data from the Scheme Advisory Board, particularly in relation to investment costs under the new pooling arrangements.

Governance Compliance Statement

The Committee agreed a revised statement in September 2016 which is fully compliant with the guidance. This guidance issued by the DCLG in 2008 is now somewhat outdated although still relevant. As indicated in the Committee's revised Statement, further review will be required when the new pooling arrangements are in place.

North Yorkshire Pension Board

The Board has been both active and productive in the past year. I attended the Board meeting on 14th January 2016 and provided training on the governance framework. A work plan has been established and the Board's business at meetings has covered a broad range of issues consistent with its responsibilities.

I note that the chairman of the Board attends meetings of the Committee to report on the Board's activities and reports back to each Board meeting. The Board is seeking assurances where appropriate, e.g. external and internal audit reports, and has been kept informed of the pooling arrangements as these have developed. A review of employer and administering authority discretions has been undertaken, and the risk register has been reviewed. Training arrangements are reviewed regularly.

In my view the Board has a comprehensive work plan and is operating effectively. However, local pension boards have been given a wide ranging remit and extensive responsibilities within a relatively new governance structure, which is itself developing with the new pooling arrangements. The Board will need to remain vigilant in ensuring all its responsibilities are being addressed.

It is also important to be aware of external perceptions, particularly the Scheme Advisory Board. Their website provides scheme information on local pension boards in relation to compliance with the Public Service Pensions Act 2013 and this has been reviewed. The North Yorkshire Pension Board is shown to be compliant. I note that the section of the North Yorkshire website relating to the Board is comprehensive, providing basic information and details of the Board's activity at each meeting. This is more comprehensive than other funds I have seen and is to be commended.

Implementation of new pooling arrangements

I have monitored developments in the Committee's involvement and participation in the Border to Coast Pensions Partnership as have members of the Pension Board. The next stage is crucial in requiring the formal approval of Council to the proposed arrangements prior to 31st March. That process is current and it is not appropriate for me to comment on the arrangements at this time.

It is during this period that the issue of governance, among the many other areas to be addressed, will need to be developed. New governance arrangements will need to ensure that both the Committee and the Board can meet their responsibilities in relation to compliance with statutory requirements and guidance.

I note that the Committee has considered the Pool Governance Structure and received legal advice on the arrangements required. It will be necessary during the coming year for the Committee and the Board to review these new governance arrangements and any changes required to current policy and strategy statements.

CIPFA issued guidance on the governance principles for the oversight of LGPS asset pools last autumn. The guidance, which is advisory and not mandatory, sets out the key governance issues that the 89 LGPS funds in England and Wales must consider as the pooling proposals are developed ahead of planned implementation in April 2018.

The governance guidance document has been prepared by the CIPFA Pensions Panel with Aon Hewitt and is intended to highlight areas that individual funds should consider, including conflicts of interest and risk management, information and reporting requirements, and the responsibilities of chief finance officers.

Local Pension Board briefing

I have reviewed the notes from an asset pooling briefing with local pension board representatives held by the Scheme Advisory Board, LGA, HM Treasury and DCLG (these four represent 'the Panel') on 10th August 2016. Although this was some time ago and the Committee may have been advised on some of these issues, I thought it might be helpful to refer below to some relevant points in relation to governance.

Representation - Significant concerns were raised about the lack of representation on the governance structures designed to oversee the pools. The note states that *"without such representation, local boards, and member representatives in particular, would not be able to play an effective role in helping to ensure that investment and responsible investment strategies were being implemented by the pools"*.

In response, the Panel stated that there would be no mandatory membership of oversight structures and that it would be for each pool to develop the proposals they considered appropriate.

Transparency of costs - Mandatory disclosure of investment costs was requested but the Panel stated there was no authority to do so. Since then, the SAB has launched a transparency code to require disclosure of investment fees on a voluntary basis and a standard template is provided. Funds would be expected to encourage their asset managers to sign up to the Code.

Ownership and voting - A concern was raised regarding the impact of the common ownership of assets on responsible investment strategies. Clearly these are issues to be resolved in the new governance arrangements.

Impact on benefits - It is important to note the response to concerns raised about the potential impact on member benefits of any underperformance by pools, in particular through cost management arrangements:

"The Panel was unequivocal in reminding the meeting that benefits in the LGPS were statutory and were not subject to the level of, or variation in, investment returns. Both the SAB and HM Treasury cost management processes specifically excluded investment returns from the factors to be taking (sic) into account when assessing the future cost of the scheme. The risk of underperformance in investment returns was reflected solely in the deficit and met through increased employer contribution rates. It was, however, accepted that significant and continued growth in deficits could raise questions on the sustainability of the current benefit structure."

While none of this is new, it is helpful to have these views spelt out. Clearly local pension board members have an interest but this needs to be viewed in the context of their statutory duties. The position of the Committee is unchanged.

Revised investment regulations

The Committee considered the revised investment regulations and associated DCLG mandatory guidance at its meeting on 24th November. I understand that a new Investment Strategy Statement is to be considered by the Committee at this meeting.

While I expect the new ISS to be compliant with the regulations and guidance, the latter is particularly detailed and I will need to review compliance at a future date. The Pension Board will also need to familiarise themselves with the regulations and guidance to check compliance.

The new ISS must be approved and published by 1st April 2017. As previously, the strategy has to be reviewed at least every three years and the new pooling arrangements may require revision at an earlier date.

Funding Strategy Statement

The Committee has been reviewing the Funding Strategy Statement as part of the valuation process and a revised Statement is due to be considered at this meeting. In preparing the Statement, the Committee must have regard to CIPFA Guidance (Regulation 58). CIPFA issued revised guidance in September 2016.

As with the ISS, I expect the new FSS to be compliant with the regulations and the updated guidance and I will need to review compliance at a future date. The Pension Board will also need to familiarise themselves with the regulations and guidance to check compliance.

Other issues

Section 13 valuations - The Government Actuary's Department, appointed by DCLG as 'responsible authority', have completed a 'dry run' section 13 analysis based on the 2013 local valuations. This analysis assesses whether the four main aims - compliance, consistency, solvency and long term cost effectiveness - have been achieved.

This is in advance of a review of the 2016 valuation results under the Public Service Pensions Act 2013 - a copy of Section 13 is provided in ANNEX A for ease of reference. It is for each fund to discuss the implications with the fund actuary but there will be governance issues arising which affect the Committee and the Board.

Peter Scales
Independent Professional Observer

Public Service Pensions Act 2013 (extract)

13 Employer contributions in funded schemes

(1) This section applies in relation to a scheme under section 1 which is a defined benefits scheme with a pension fund.

(2) Scheme regulations must provide for the rate of employer contributions to be set at an appropriate level to ensure—

(a) the solvency of the pension fund, and

(b) the long-term cost-efficiency of the scheme, so far as relating to the pension fund.

(3) For that purpose, scheme regulations must require actuarial valuations of the pension fund.

(4) Where an actuarial valuation under subsection (3) has taken place, a person appointed by the **responsible authority** is to report on whether the following aims are achieved—

(a) the valuation is in accordance with the scheme regulations;

(b) the valuation has been carried out in a way which is not inconsistent with other valuations under subsection (3);

(c) the rate of employer contributions is set as specified in subsection (2).

(5) A report under subsection (4) must be published; and a copy must be sent to the scheme manager and (if different) the responsible authority.

(6) If a report under subsection (4) states that, in the view of the person making the report, any of the aims in that subsection has not been achieved—

(a) the report may recommend remedial steps;

(b) the scheme manager must—

(i) take such remedial steps as the scheme manager considers appropriate, and

(ii) publish details of those steps and the reasons for taking them;

(c) the responsible authority may—

(i) require the scheme manager to report on progress in taking remedial steps;

(ii) direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.

(7) The person appointed under subsection (4) must, in the view of the responsible authority, be appropriately qualified.

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

23 FEBRUARY 2017

LGPS POOLING ARRANGEMENTS

Report of the Treasurer

1.0 **PURPOSE OF REPORT**

1.1 To update Members on progress towards the Government's announced proposal to pool the assets of LGPS funds.

2.0 **RECENT EVENTS**

2.1 On 26 January 2017 a special PFC meeting was held for Members to make a recommendation to the Council's Executive to make a proposal to Full Council to formally join the Border to Coast Pension Pool (BCPP). Following the 3 hour meeting, the proposal was passed by eight votes to one, with one additional recommendation around transition arrangements being added, to delegate authority to the Pension Fund Committee to determine the transition arrangements.

2.2 On 31 January 2017 these recommendations went to the Executive so that they could make the proposal to Full Council. The recommendations were approved by Executive and the issue will therefore be considered at Full Council on 15 February 2017.

2.3 The aim is to have Full Council approval from all of the 12 BCPP Partner Funds by 22 March 2017. The following is a timetable for each administering authority:

South Yorkshire Transport Fund	13th February 2017
North Yorkshire County Council	15th February 2017
Teesside Pension Fund	15th February 2017
Cumbria Pension Fund	16th February 2017
South Yorkshire Pension Fund	16th February 2017
Durham Pension Fund	22nd February 2017
Northumberland Pension Fund	22nd February 2017
East Riding Pension Fund	22nd February 2017
Lincolnshire Pension Fund	24th February 2017
Tyne & Wear Pension Fund	9th March 2017
Surrey Pension Fund	21st March 2017
Warwickshire Pension Fund	21st March 2017
Bedfordshire Pension Fund	22nd March 2017

2.4 Since the special PFC meeting there has been a Member Steering Group (MSG) meeting on 31 January 2017. This was attended by the Chair of the PFC. The MSG meeting provided Members with an update on the project with a particular focus on each of the 3 workstreams. To remind Members, the workstreams are:

- Governance
- People
- Operating Model

2.5 A verbal update will be provided at the meeting.

3.0 RECOMMENDATION

3.1 Members to note the contents of this report.

GARY FIELDING
Treasurer
Central Services
County Hall
Northallerton

14 February 2017

North Yorkshire County Council

Pension Board

Minutes of the meeting of the Pension Board held on Thursday 26 January 2017 at County Hall, Northallerton commencing at 9.30 am.

Present:-

Members of the Board

David Portlock (Independent Chairman).

Employer Representatives:
County Councillor Mike Jordan, Councillor Ian Cuthbertson (City of York), Louise Brandford-White (Hambleton District Council) and Phil MacDonald (University of Hull).

Scheme Members:
Ben Drake (Unison) and Mandy Swithenbank (GMB).

In attendance:-

County Council Officers: Amanda Alderson, Anna Binks, Suzanne Berry, Steve Loach, Tom Morrison and Jo Wade.

Apologies for absence were received from Gordon Gresty and Stella Smethurst (Unison).

Copies of all documents considered are in the Minute Book

67(a) Minutes

Resolved -

That the Minutes of the meeting held on 6 October 2016, having been printed and circulated, were taken as read and confirmed and signed by the Chairman as a correct record.

67(b) Action Record

Considered -

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

Reference was made to Appendix 1 to the report which provided an update on discretions policies, in particular the Central Government cap which would impact on the overall severance package which could be obtained through a combination of redundancy payment, any other severance payment and pension benefits. It was noted that legislation had not yet been enacted, and until then, amended discretions policies could not be completed and implemented by employers. It was expected that the legislation would be applied in due course.

The Member undertaking the review on discretions policies stated that he had taken account of this matter.

A Member referred to Minute No. 15 - Governance Issues, and noted that this stated that “Members’ would determine what would constitute a suitable settling in period”, and asked whether this had now elapsed. In response the Chairman stated that the Pension Board would submit an annual review of work carried out, and make any necessary recommendations, to the County Council. He suggested that the issue remain on the Action Record until that review had taken place.

Resolved -

That the report, and issues raised, be noted.

68. Declarations of Interest

There were no declarations of interest.

69. Public Questions or Statements

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

70. Draft Minutes of the Pension Fund Committee Meeting held on 24 November 2016

Resolved -

That the draft Minutes of the Pension Fund Committee be noted.

71. Internal Audit Reports

Considered -

A report providing the Pension Board with an update on Internal Audit activity.

An updated timetable for the completion of Internal Audit works, from Veritau, North Yorkshire Pension Fund’s Internal Auditors, was highlighted.

It was noted that there were three outstanding reports due in Quarter 3 and a draft report for the Income Audit had been received by Pension Fund officers, but some outstanding queries had to be resolved before this could be issued as a final report. No update had been provided as to the status of the Expenditure and Systems Audit reports since the previous meeting of the Pension Board.

Ian Morton of Veritau attended the meeting and provided a background to the current position regarding the outstanding Internal Audit reports.

He noted that Investments had been afforded high assurance by Veritau, with only minor issues to address.

In terms of the Income Audit he noted that a very different approach had been undertaken, as the introduction of the new LGPS scheme in 2014 had resulted in the career average and final salary pension schemes running in parallel. The new style of Audit had seen visits taking place to a number of employers to walk through the process with them in terms of data produced for pensions' returns. The data had then been checked to determine how this was processed, with good and poor practice being identified. An area of concern was data not being validated appropriately. Feedback was being provided on strengths and weaknesses both to employers and the Pension Fund Team. It was noted that, with the new system of auditing being developed, the level of assurance in terms of Income had not been published at this stage. An Audit report would be published in due course.

In terms of the Expenditure Audit it was noted that although not all the evidence had been collated as yet, reasonable assurance could be given. The main issue affecting this was the reconciliation between the old and new systems prior to, and, following the implementation of the 2014 LGPS Regulations. Some issues had been identified in relation to that, with others still to be considered. A report would be complied and submitted in due course.

For 2016/17 the same three areas would be subject to audits, together with consideration of Systems Access and Control. The Systems Audit would consider how separation was provided from the internal system to the public facing system and the security measures in place in relation to that.

Clarification was provided on the timescales for the final reports to be in place. It was noted that, at this stage, the Board had seen the 2015/16 Internal Audit Report in relation to Investments and that a draft report in relation to Income had been submitted to officers. It was expected that reports in relation to Expenditure and Income would be available for the next meeting of the Pension Board.

It was noted that, when a high degree of assurance was provided, in respect of an audit report, the Pension Fund Committee did not always spend time considering that, however, as the Pension Board monitored compliance with the appropriate regulations, it was considered reasonable that the Internal Audit reports, when available, were submitted to the Board. It was noted that, currently, there were no areas that were considered to be of medium or high risk. It was emphasised, however, that the Pension Board would still require Internal Audit reports to be submitted for consideration.

A Member sought clarification of the intentions behind the Audit of Investments, noting that this was undertaken retrospectively and suggested that the majority of local authority Pension Funds operated in a risk averse manner. It was noted that the Internal Audit on Investments was undertaken to ensure that processes and systems were appropriate rather than auditing the investments themselves, however, it was emphasised that North Yorkshire Pension Fund was not particularly risk averse in terms of its investment strategy to ensure that significant returns were expected to be generated to meet the cost of pension liabilities. Internal Audit ensured that Fund Managers worked to the investment strategy policies set out by the Pension Fund Committee. It was noted that the various Fund Managers also had their own compliance systems in place and that audits were carried out on their systems to ensure that these were appropriate.

Resolved -

(i) That Ian Morton (Veritau) be thanked for his update, the content of which be noted; and

(ii) That Internal Audit, reports be submitted to subsequent meetings of the Pension Board as soon as they are available.

(iii) That Veritau attend future Pension Board meetings to provide an update on Pension Fund internal audit activities, when necessary.

72. Review of Employer and Administering Authority Discretions - Update

Pension Board Member, Ben Drake, stated that due to work pressures he had been unable to progress the review as yet, but expected to be able to continue that from this time.

Resolved -

That this be noted.

73. LGPS Pooling - Update

Members were provided with a copy of a report that was to be the subject of consideration by a special meeting of the Pension Fund Committee, immediately following this meeting. It was noted that, originally, it was expected that the report would contain exempt information and, therefore, would only be available to Members of the Pension Board during the special meeting of the Pension Fund Committee, however, it had subsequently been determined that the report did not contain any confidential details and was, therefore, publicly available.

It was stated that the Pension Fund Committee was being requested to recommend, for approval by the Executive (and then full Council), an approach for the Council, as Administering Authority for the North Yorkshire Pension Fund, to meet its regulatory obligations for asset pooling through joining the Border to Coast Pensions Partnership (BCPP). Agreement to the recommendation by full Council on 15 February 2017 would commit the North Yorkshire Pension Fund to being a member of the BCPP pool. It was noted that North Yorkshire was the first of 12 authorities to consider the detailed proposals and commit to joining the pool, consequently, there had been a great deal of work for the officers of North Yorkshire Pension Fund to undertake. Should all of the Authorities involved comply with the expected timetable, each would have committed to BCPP by 21 March 2017.

Within the papers provided to the Pension Board was a presentation given to employers regarding pooling arrangements, details of which had been considered by the Pension Board at previous meetings.

Also provided was a letter from Marcus Jones MP, Minister for Local Government, accepting the BCPP detailed proposal.

The following issues were raised during discussion of this matter:-

- A Member queried the projected payback position for Teesside Pension Fund. It was noted that Teesside was an internally managed Fund, therefore, the payback period was likely to be significantly longer than the Funds with externally managed investments.

- Details of the arrangements for the administration of BCPP were discussed. It was noted that it is expected to be based in Leeds, as it has strong existing financial services and has good transport connections. Details of the staffing structure and recruitment process for the administration structure were outlined.

♦ A Member referred to the representation on the Management Board/Joint Committee for BCPP and sought support for the Pension Board to register a view, with the Pension Fund Committee, that there should be representatives of the Scheme, employers and Trade Unions within those arrangements. He also considered that the arrangements outlined provided no scope for Members of the Pension Board to be involved. He suggested that information, filtering from other pooling arrangements, indicated that union representation was being considered within their governance frameworks, but noted this was not happening with BCPP.

In response it was stated that the arrangements for BCPP, in terms of investments, would have a similar input for the Pension Board as existed already. Currently, there were no arrangements for the representative groups to be represented within the meeting arrangements for other pools, however, it was noted that the unions were pushing for this to be the case. Details of the BCPP reporting framework and governance structure were outlined. It was considered that there would not be scope to directly include those representatives within that structure.

A Member considered that other pools would accept Scheme level representation and suggested that BCPP would be out of line with the other pools should this not be agreed to. A Member suggested that the request was appropriate. Another Member considered that it would be difficult to enlarge the structure of the bodies outlined from what was proposed as these should be efficient, effective and manageable. It was also noted that the Pension Fund Committee would be represented within that framework, therefore, feedback would come into the Pension Board via that arrangement. Some Members considered that the arrangements did not differ greatly from what was in place currently and it was queried whether it was necessary to include the representation as outlined.

It was noted that, at this stage, the governance framework arrangements were in draft form and, potentially, these could be altered.

The Chairman noted that the Pension Fund Committee did not have the delegated powers to agree the governance structure for BCPP, in terms of the North Yorkshire Pension Fund's involvement, as the Constitution for the County Council held this to be the County Council as the Administering Authority. As such, the forthcoming Pension Fund Committee would be required to make a recommendation to Executive, who would then submit a proposal to full County Council. In relation to that he stated that, subject to the agreement of the Chairman of the Pension Fund Committee, the Member could raise his concerns, with a view to the representation being included within the structure, as he outlined, at the forthcoming meeting of the Pension Fund Committee.

Whilst acknowledging the suggestion by the Chairman, the Member who raised the representation issue felt that the structure was likely to remain as detailed within the report. As such, he considered that there would be little opportunity for the Pension Board to review investment structures, with BCPP being solely responsible for the implementation of the investment strategy.

In response to this it was emphasised that the investment strategy for North Yorkshire Pension Fund would still be expected to be met through BCPP and that the investment vehicle would be designed to ensure that this could be adhered to. It was reiterated that representatives from the Pension Fund

Committee would report back into the Pension Board in relation to how the investment strategy was performing, within BCPP, and comments from the Board would be fed back in respect of that.

Some Members again suggested that the role of the Pension Board within the new arrangements should remain similar to what already existed.

A Member considered that the Pension Board would continue to have a role in overseeing the governance of the BCPP pool, as it did for the Pension Fund Committee. It was stated that should the Pension Board have concerns with the governance arrangements for the pool then these would be raised via the Pension Fund Committee and fed back in through the representative member. A Member suggested that it would be appropriate, at this stage, to consider how the governance arrangements for the BCPP framework operated, to determine whether these were indeed appropriate.

- ♦ It was noted that issues relating to the appropriate remuneration to obtain the quality of Fund Managers required to operate within the pool, as well as the salaries to be paid to the senior executives would be considered at a forthcoming meeting of the Members' Steering Group.

Resolved -

(i) That the report be noted;

(ii) That Members, if possible, attend the forthcoming meeting of the Pension Fund Committee to observe the debate in relation to LGPS Pooling Arrangements; and

(iii) That Members submit any questions that they wish to raise, in relation to the report, to the Pension Fund Committee, subject to the agreement of the Chairman of that Committee.

74. Training

Considered -

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

The Chairman reminded Members to submit details of any training they had undertaken to the Clerk, whether they considered this to be relevant or not, as this assisted in ensuring that the skills base for the Pension Board remained relevant and appropriate.

A Member noted that Mazars were holding regular forums in York which could be beneficial to Members of the Pension Board. In relation to this it was noted that the events were for Members of Audit Committees and were by invitation only, however, a number of Members of the Pension Board, who were also involved in Audit Committees, regularly attended these forums.

A Member stated that he would be attending the "People and Pensions" Conference in London in the week following the meeting and would provide feedback to a subsequent meeting of the Pension Board.

Resolved -

(i) That Members continue to provide the Clerk with updates regarding any training undertaken for submission into the Training Record; and

(ii) That Members continue to identify any appropriate training needs.

75. Work Plan

Considered -

The report of Legal and Democratic Services detailing the areas of planned work by the Pension Board and requesting Members to consider identifying a plan of work for the Board, for the coming year, as highlighted in the Work Plan.

A discussion was undertaken on how to develop the Work Plan for the Pension Board and the following issues were raised:-

- The frequency of reports back to the County Council, from the Pension Board, had yet to be determined and it noted that it was a matter for the Board to decide when to submit those reports. It was suggested that consideration be given to what other Pension Boards were doing in this respect, with findings reported back to a subsequent meeting, allowing a report back to County Council to be developed.

- Issues around whether the Pension Fund Committee was responsible for cascading work down to the Pension Board were discussed. It was stated that the Pension Fund Committee would not be expected to lead on what the Pension Board should consider, however, it could highlight areas where they would welcome the support and guidance of the Pension Board. It was noted, that currently, the Pension Fund Committee had not indicated any issues that they would seek support and guidance on, which was probably the result of the extensive work currently being carried out in relation to pooling.

- A Member asked whether there were significant issues within the purview of the Pension Fund Committee, that although they had not expressed a wish for the Pension Board to consider, it would be appropriate for this to take place. The Chairman stated that he would pursue this issue with appropriate officers, with a view to bringing potential areas for consideration back to subsequent meetings of the Pension Board.

Resolved -

(i) That further consideration be given to the publication of an annual report of the Pension Board to County Council following an investigation into what other Pension Boards had undertaken;

(ii) That possible areas of investigation for the Pension Board are considered and reported back to subsequent meetings.

76. Other Urgent Business

Pensions Regulator - Letter re Accuracy of Records

Details of the tracking systems in place to meet the requirements of the Pensions Regulator were outlined. Additional, logic based checks were taken to ensure that poor data was not being used. Clarification of data submitted by employers was also subject to additional checks to ensure that this was appropriate. Reasonableness was applied to data checks, together with appropriate formatting to provide the most accurate details as possible.

Audit checks, both internal and external, alongside in-house checks sought to safeguard the secure use of the data and to meet the required regulations. It was noted that, this year, audit checks had indicated that the system was working satisfactorily.

It was emphasised that everything was being done to ensure that data was reasonable and accurate and that information was issued within a reasonable timeframe.

The Chairman requested, and Members agreed, that the Pension Board place on record its thanks for the hard work being undertaken by the North Yorkshire Pension Fund Administration and Benefits Teams.

Annual Benefits Statements

It was asked whether these were now fully up-to-date.

In response it was noted that the information from the largest employer had just been received and information was currently being placed into the Annual Benefits Statements, and these should be completed shortly. Details of how the slippage had occurred were provided.

It was noted that the matter would not concern the Pensions Regulator, who would have more interest if a systemic failure had occurred, rather than a minor issue with a suitable plan in place to address it.

The meeting concluded at 11.10 am.

SL/JR