

North Yorkshire County Council

Pension Fund Committee

Minutes of the meeting held on 22 February 2018 at County Hall, Northallerton commencing at 10.00 am.

Present:-

County Councillors John Weighell OBE (Chairman), John Blackie, Michael Chambers, MBE, Cliff Lunn, Patrick Mulligan, Helen Swiers and Angus Thompson.

David Portlock – Chair of the Pension Board.

Councillor Jim Clark - North Yorkshire District Councils.

Apologies were received from County Councillor Andy Solloway and Unison retired members' representative Brian Hazeldene.

There was one member of the public present.

Copies of all documents considered are in the Minute Book

40. Exclusion of the Public and Press

Resolved -

That the public and press be excluded from the meeting during consideration of Appendix 3 of Minute No. 45 on the grounds that this involved the likely disclosure of exempt information as defined in paragraphs 1, 2 and 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.

41. Minutes

Resolved -

That the Minutes of the meeting held on 23 November 2017, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

42. Declarations of Interest

County Councillor John Blackie declared a non-pecuniary interest in relation to the public question, below, and its reference to fossil fuels, in respect of him being the volunteer Managing Director of a social enterprise that operated the fuel station in Hawes.

43. Public Questions or Statements

Mr Kevin McSherry representing the Wenningdale Climate Action Network (WeCAN) attended the meeting to outline a number of questions that had been provided to Members of the Committee prior to the meeting.

As background he provided details of the group's work in relation to environmental concerns, particularly in relation to the use of fossil fuels. The questions submitted related to the Pension Fund's investments in fossil fuels, and he noted the need to address the use of those fuels in relation to the wellbeing of future generations.

The questions, and answers (A) provided in relation to those, are detailed as follows:-

1. Given that North Yorkshire Pension Fund is to join the Border to Coast Pension Partnership, will the Pension Fund Committee still have ultimate responsibility for the North Yorkshire Pension Fund Investment Strategy?
 - A. Yes.
2. Does the Pension Fund Committee accept that its fossil fuel investments are at risk from significant material environmental factors to do with climate change?
 - A. We expect our Fund Managers to carry out an assessment of risk versus benefit on a range of issues about the value of companies which they are considering investing in. One of these issues is the extent to which environmental matters will have an adverse impact upon company valuations but it is one of many considerations.
3. What plans does the PFC have to inform Pension Scheme Members of such risks?
 - A. The PFC publishes the Investment Strategy Statement (a copy of which was provided) which sets out its position on social, environmental and governance issues. We will continue to make those available to Scheme Members. We have no specific plans to single out the risks associated with fossil fuel issues in this Strategy Statement as this is one of multiple areas of risk that are relevant in investment decisions. It is also worth noting that the Fund engages actively with companies on the issue of fossil fuels, climate change and investment in carbon stocks, through its participation in the Local Authority Pension Fund Forum (LAPFF). LAPFF's engagement strategy is to undertake robust engagement for an orderly carbon transition by requiring companies to identify and tackle carbon risks. To improve effective engagement, LAPFF has also joined the Transition Pathway Initiative (TPI) which aims to provide a transparent framework to track engagement and analyse company responses to climate and carbon risk. The Fund also votes on resolutions at global AGMs, seeking transparency and disclosure of climate risks and setting emission reduction targets. In this manner views are directly communicated to individual boards. The Fund also has an increasing level of investment in renewable and low carbon energy production and will continue to make such investments where the risk/return profile fits the Investment Strategy.
4. How would the PFC gauge Scheme Members' opinions on the NYPF continuing to invest in fossil fuels?
 - A. The PFC is charged with ensuring that the Pension Fund is able to pay the pensions to Scheme Members both now and in the future. The PFC discharges

this responsibility in line with the Investment Strategy. We believe that the primary concern of Scheme Members will also be the security of their pensions and for employers that we help to minimise the cost of contributions by getting the best possible investments. It is important that any consultation with Scheme Members does not focus on a single issue such as fossil fuels as this will give an overly simplistic view of the challenges in ensuring a sound investment strategy. It would also be important that we get a balanced view of the membership rather than that of groups who champion particular issues. We would welcome the group's view on how they think this could be done in a balanced way.

5. Will the NYPF reflect new investment regulations to be produced by Central Government in its revised responsible Investment Strategy?
 - A. The PFC already sets out its position on responsible investment in the Investment Strategy Statement a copy of which was provided. Paragraph 7 of the Statement provides details in relation to that. We will continue to comply with any further regulations as they are made.
6. We urge the PFC to press for inclusion in the BCPP Investment Strategy of an additional clause about divestment as part of the "engagement and stewardship" section of the Strategy.
 - A. The BCPP is being created with financial professionals who will be responsible for the selection of Fund Managers. These Fund Managers will then be actively managed by BCPP and they are well placed to make decisions on investment and dis-investment as necessary. Issues of corporate governance and transparency are part of the monitoring regime for Fund Managers as the PFC accepts this is an important component of a company's sustainability and would therefore expect this to be in place. We will happily explore this issue further to see if there is merit in the proposal by discussing the matter with BCPP.
7. Why is the NYPF holding on to its fossil fuel investments?

The previous answers highlight the reasons for this. The current global energy position is that fossil fuels continue to be an important part of the supply chain. However the Fund also has an increasing level of investment in renewable and low carbon energy production and will continue to make such investments where the risk/return profile fits the Investment Strategy. We believe that the investment portfolio should be such that it best delivers the requirement to produce returns that can pay benefits to its members in the short, medium and longer terms. As a result the portfolio is likely to reflect a range of investments.

Following the initial questions and responses Members discussed the issues raised and the following details were highlighted:-

- ◆ Generally, Members agreed with the need to move away from the use of fossil fuels, but emphasised that this had to be undertaken slowly, over a period of time, which was likely to be reflected in the investments made by North Yorkshire Pension Fund. Members considered that fossil fuels were still an essential feature of life, throughout the world, currently, and to cease their use immediately would cause severe problems.
- ◆ It was clarified that the North Yorkshire Pension Fund held very little direct investments in fossil fuels, however, it was unknown as to the extent of the extended investment portfolio and how that touched on fossil fuel related investments. It was emphasised that should these investments deliver an

appropriate and effective return for the Pension Fund then Fund Managers would invest in those.

- ◆ Members again emphasised the reality of the situation, with fossil fuels being an essential part of everyday life currently, however, it was acknowledged that the position was changing with renewable energy becoming more prominent and it was expected that investments in renewable energies would be developed in time.
- ◆ The Chairman considered that a move from agriculture to the provision of renewable energy fuels was a great danger to the world, as this would lead to less food production. He suggested that this issue should be taken account of. He recognised that this was a complex issue, but answers to the questions raised had been provided.
- ◆ The questioner accepted that the issue was indeed complex, but emphasised the need to move towards better energy production and highlighted the influence that Pension Funds could have on that in terms of dis-investment.

44. Stewardship Code

Considered -

The report of the Treasurer requesting Members to approve the draft North Yorkshire Pension Fund Statement of Compliance with the UK Stewardship Code.

The Treasurer stated that the UK Stewardship Code was first published in 2010 and updated in 2012 (details supplied as an Appendix to the report). The next edition of the Code will be in 2018 with the main focus being UK equity investments.

Details of what was sought through compliance with the Code were set in the report. A Statement of Compliance was required to be submitted to the Financial Reporting Council (FRC) for assessment and details of that were provided in Appendix 2 to the report.

It was noted that Pension Board Members had considered the draft Statement of Compliance at their meeting in January 2018 and comments and feedback had been reflected in the draft Statement.

Members were requested to submit any comments they had in relation to the draft Statement of Compliance, to the Treasurer, by the end of the week, allowing the Statement to be sent to the FRC for assessment.

The following issues were clarified during a discussion of the report:-

- ◆ The seven principles related to compliance with the Code could be evidenced.
- ◆ Compliance with the Code was seen as good practice.

Resolved -

That any comments in relation to the draft NYPF Statement of Compliance with the UK Stewardship Code should be forwarded to the Treasurer, by the end of this week, with the Code then sent off to the FRC for assessment.

45. Administration Report - Member and Employer Issues

Considered -

The report of the Treasurer providing Members with information relating to the administration of the Fund over the year to date and providing an update on key issues and initiatives which impact the Administration Team.

The Treasurer stated that the report had been revised in an attempt to provide Members with details in a greater depth, and more up-to-date, in relation to the work of the Administration Team and its impact. Members' feedback on the content and layout of the report would be welcomed.

The Head of Pensions Administration provided the following highlights in relation to the report:-

Admission Agreements and new Academies

Numbers continued to increase in terms of admission agreements with schools converting to academy status. In progress numbers remained fairly stable.

Membership Statistics

Details were outlined in the report, with a number of deferred members increasing. Work continued to provide a more accurate membership position, going forward, and details of work being undertaken were provided.

Performance Statistics

Details for the period 1 October to 31 December 2017 were provided. It was noted that the focus remained on reducing the outstanding work within the section and developing initiatives to facilitate this. The major issue remained outstanding queries with employers and every effort was being made to obtain the required information, however, if no satisfactory outcome could be obtained then the Regulator would be asked to intervene.

Commendations and Complaints

Details for both were provided within the report.

It was noted that the complaints matters were categorised and an explanation was provided as to the nature of the complaint, how it had arisen and what was being undertaken to address it. A review of complaints was undertaken and a "lessons learned" analysis sought to diminish future complaints.

The issues relating to one specific, long running, complaint were detailed and it was noted that a Member of the Pension Fund Committee had been involved in responding to the complainant. The Member had spoken to all those involved and had advised the complainant as to the measures that were being undertaken to address the complaint, accordingly. The Administration Manager stated that the complaint had now been addressed. The Chairman noted that all Members of the Pension Fund Committee had been contacted by the complainant, initially, with details of the nature of the complaint.

Members welcomed the addition of the commendations and complaints section to the report.

Annual Benefits Statement - Update

The work for processing the 2017 Statements had been completed. Work had commenced on the 2018 year end details in preparation for the next Annual Benefits Statement cycle. It was noted that the process had commenced earlier and the Service were being more robust in collecting the required data from employers. Details of the new framework for the provision of information, and compliance by employers would be provided to future Pension Fund Committee meetings.

A Member congratulated the Administration Team on their completion of the Annual Benefits Statements for 2017. He noted that chasing employers for information was a strain on resources and he asked at what stage the situation become unmanageable and employers would be reported to the Regulator. In response the Administration Manager stated that it was difficult to say when the Regulator would become involved as there were different circumstances. She emphasised that where an employer was communicating and attempting to address the situation then the Administration Team would do its best to work with them to manage this, however, where communication had broken down contact with the Regulator was more likely.

CIPFA Benchmarking Return 2016/17

These showed the unit cost for NYPF Pensions Administration was £17.14 compared with an average unit cost across the whole of the benchmarking club of £20.14. The NYPF unit cost had increased due to an increase in general costs across the board, however, NYPF continued to be well below the average for the comparators in the exercise.

HM Treasury response to GMP Indexation

The consultation set out options for how the Government would continue to meet obligations to index and equalise pension entitlements for members in public sector schemes following reform to state pensions and the ending of contracting out. Details of the current "interim solution" were outlined and it was expected that this would be extended for a further two years and four months. Details of how this would affect LGPS were highlighted.

GMP Reconciliation

The process was ongoing and was expected to be completed, on target, by 30 September 2018.

It was stated that a decision was required from the Committee in relation to a tolerance being set to efficiently reconcile the GMP values. It was noted that should the difference between the HMRC GMP value and the NYPF GMP value be less than this tolerance then the HMRC GMP value would be accepted with no further review being required. A widely accepted industry standard for the tolerance was £2 per week. Around 4,600 members currently had the HMRC GMP value that did not exactly match the NYPF GMP value, but fell within the £2 pw tolerance. The number was likely to change as further cases were reconciled against HMRC data during the course of the project.

It was clarified that the £2 tolerance level operated both ways.

General Data Protection Regulations (GDPR) 2018

An action plan had been produced for the Fund and policies were being drafted to ensure that the Fund was compliant, in line with the introduction of the Regulations in

May 2018. Collaboration with Members of the North East Pension Officers Forum (NEPOF) was being undertaken to provide clarification in terms of compliance.

Breaches Policy and Log

Details of a breaches policy and log, as previously discussed, and in line with the requirements of the Pension Regulator's Code of Practice, were provided as an Appendix to the report. It was noted that these documents had been reviewed and discussed by the Pension Board and that Members were requested to consider and approve them.

Efficiency Initiatives

Letters' reviews continued and had been utilised to substantially reduce the amount of standard letters for the Administration Team to use. A review of the Annual Benefits Statement template had also been undertaken. The Administration Team continued to undertake reviews to identify inefficiencies and areas of improvement and streamlining.

Consideration of Payment of Death Benefit

It was noted that this issue was confidential as the matter was personally sensitive to the people involved.

Members considered the issues relating to the case highlighted and suggested that there was need for a legal interpretation of this, however, it was suggested that it not appropriate for the Pension Fund Committee to make judgement on such matters and, therefore, consideration should be given to future cases being delegated to the Treasurer in consultation with Legal Services.

Member Training and Meeting Timetable

Details were provided in Appendices to the report.

The following issues were highlighted in relation to the report:-

It was noted that a change was expected in respect of the City of York Council representative on the Pension Fund Committee, following their Annual Meeting, with Councillor Ian Gillies expected to be their representative.

A Member referred to the attendance of Unison representatives at the Pension Fund Committee. It was noted that Brian Hazeldene, the retired members Unison representative, had submitted his apologies in relation to his attendance at this meeting due to ill health.

Members were informed of the recent death, following a short illness, of Ben Drake, a regular attendee at Pension Fund Committee meetings as a Unison representative and also a Member of the Pension Board. Members paid tribute to Ben's work on behalf of the North Yorkshire Pension Fund and his useful contributions to the meetings he attended. They offered their condolences to his family and friends. The Chairman stated that he had sent a letter to Ben's family on behalf of the Pension Fund Committee offering condolences.

It was noted that the Richmondshire MP, Rishi Sunak, had recently been appointed as Under Minister with responsibility for the Local Government Pension Scheme and it was suggested that it would be useful to have a meeting between him and Members

of the Pension Fund Committee. It was stated that further consideration would be given to arranging this meeting and Members would be informed accordingly.

In respect of details contained in Appendix 4 to the report it was noted that County Councillor Angus Thompson had attended the Pension Workshop held on 20 December 2017.

Resolved -

- (i) The contents of the report be noted;
- (ii) That the adoption of the £2 per week tolerance in respect of the GMP reconciliation project be approved;
- (iii) That the breaches policy and log be approved; and
- (iv) That the issue relating to the payment of a death benefit, legal advice be obtained, the matter be resolved in accordance with that advice and consideration be given to future similar cases being delegated to the Treasurer, in consultation with Legal Services and the Chairman to resolve.

46. Budget/Statistics

The Treasurer circulated a replacement report to that provided with the agenda for the meeting. The report provided details on the following:-

- (a) The expenditure/income position to date for 2017/18.
- (b) The cash deployment of the Fund.
- (c) The cash-flow projection for the Fund.
- (d) The draft 2018/19 budget for the Fund.

The Treasurer apologised to Members in respect of the late replacement of the report noting that the original had omitted details in relation to the 2018/19 draft budget and to highlight that arrangements for reporting would be altered for future meetings in terms of providing a fully accrued budget, a three year cash-flow forecast and details of cash-flow.

In terms of the 2018/19 budget he explained that, as this had only been circulated to Members during this meeting, approval of the budget would not be undertaken until the next scheduled meeting of the Pension Fund Committee, however, the budget details provided would be adhered to in the interim.

2017/18 Budget

Pensions' payroll expenditure was forecast to exceed budget by £2m. Contributions income was forecast to be under budget by £4.5m however this was based on assumptions that had been identified as incorrect, therefore, the 2018/19 budget had been refined to reflect the latest estimations. In the nine months to 31 December 2017 there had been much greater instances of transfers in and out, with the forecast for transfers in exceeding budget by £2.5m and transfers out by £4m. The underlying 2017/18 cash-flow forecast was estimated at an in-year surplus of £1.5m. The forecast for performance related fees had increased by £1.4m to £4.9m and investment management fees had increased by £1m to £4.7m, which was a consequence of the

excellent Fund performance. The forecast expenditure for pooling had increased by £75k to £425k to cover additional expenditure on the implementation of the Pool.

Members discussed the budgetary position and the following issues were highlighted:-

- ◆ Reference was made to the value that had been added to the Fund of around £600m over the last year, in terms of the additional performance related fees paid and it was considered that these provided good value for money.
- ◆ Issues around hidden investment fees were highlighted and it was noted that some Local Government Pension Schemes provided a much more detailed breakdown of the investment fees incurred, and suggested that not all Funds published the correct level of fees in respect of their investments. Members stated that they were satisfied with the details provided and noted that the Fund's contracts with the Investment Managers included some of the hidden fees referred to.
- ◆ Members raised concerns with regards to the increase in expenses paid towards the establishment of the pooling arrangements. It was noted that Members of both the Pension Fund Committee and the Pension Board had warned that the increases were likely to occur. In particular, Members were concerned that they were not being provided with details of how the funding was being spent. The Treasurer acknowledged this and stated that he would shortly be circulating a transparent report, generated by BCPP, providing the details requested. It was noted that the structure for the Pool was nearly in place. The Treasurer emphasised that the opening budget had been agreed to allow BCPP to be formed and was not as a result of decisions made by BCPP.
- ◆ Noting that the meeting with the Chief Executive of BCPP had provided reassurances to Members in terms of obtaining non-Executive Directors with experience of the Local Government Pension Scheme, a Member raised concerns that former Pension Fund Committee Member, Roger Harrison-Topham, had not been shortlisted for an interview for such a post, following his application, despite his wealth of knowledge and vast experience in this field.
- ◆ It was clarified that the additional funding outlined in the report, in relation to the establishment of BCPP, was that provided by the North Yorkshire Pension Fund and that equal amounts had been provided by each of the other Pension Funds involved.
- ◆ The Chairman of the Pension Board noted that, during his presentation to the Pension Board in January 2018, the Treasurer had stated that he would circulate the structures and details of the Pool to Members of the Board. The Treasurer stated that had followed up that request with the Chief Executive, and Section 151 Officers within the Pool, to determine whether details could be shared with the Pension Fund Committee and the Pension Board. He stated that the request had been received positively and, currently, details were being checked for confidentiality with a view to providing those to Members of both the Pension Fund Committee and the Pension Board. He stated that he would follow this matter up accordingly.

Budget 2018/19

The Treasurer stated that the proposed budget for 2018/19 was provided as an Appendix to the report.

The Treasurer highlighted that the budget for pension payments had increased by £6m. The budget for Finance and Central Services had been increased by £0.1m. The budget for investment based fees that were paid by invoice had been increased by £0.6m. Performance related fees had been increased to £5m. The employer contribution income budget reflected the anticipated pay increase and inflationary increase in past service payments. The budget for transfers in had been increased by £2.5m and transfers out by £4m. Pooling and GMP expenditure against the current budgets was expected to be ongoing into 2018/19.

It was noted, in response to issues raised that the budget was based upon what was happening currently, and did not take account of different fees going forward into the pooling arrangements, therefore, subsequently, alterations may have to be made to the budget.

The issue of hidden fees was again discussed and it was noted that some Local Government Pension Funds had much bigger budgets, in terms of fees, in view of this. The Funds Investment Consultants, AON Hewitt, outlined details on how the hidden funds referred to were generated, and what they consisted of. A Member emphasised that the Pension Fund Committee had made careful decisions in terms of investments which had resulted in the Fund being 109% solvent and that the hidden fees had been built into the strategy for investment. It was emphasised that the matter was not simplistic and could create issues going forward into the pooling arrangements, therefore, careful monitoring of this matter would be required.

Resolved -

- (i) That the report be noted; and
- (ii) That Members note the draft 2018/19 budget at this stage, and this would be adhered to prior to formal approval at the next scheduled meeting of the Pension Fund Committee.

47. Performance of the Fund's Portfolio

Considered -

The report of the Treasurer providing details of the investment performance of the overall Fund, and of the individual Fund Managers, for the period to 31 December 2017.

The report indicated that the absolute overall return for the quarter (+4.3%) was above the customised benchmark for the Fund (+3.9%) by +0.4%.

The 12 month absolute rolling return was +17%, +6.4% above the customised benchmark of +10.6%. Absolute and relative returns over the rolling years to each of the last four quarter ends were provided by way of comparison.

The report provided details of individual Fund Managers performance in respect of the following asset classes:-

- ◆ Overseas equities.
- ◆ Global equities.
- ◆ UK equities.
- ◆ Property.
- ◆ Diversified growth funds.
- ◆ Private debt.

Details relating to risk indicators, solvency, re-balancing, MIFID II and proxy voting were also provided.

The Treasurer noted that the report had been produced using a new format and feedback from Members in relation to that would be welcomed.

The Fund's Investment Consultants, AON Hewitt, provided an analysis of the performance of the Fund during the quarter and the following issues were highlighted:-

- ◆ The Fund's investments had again performed very well during the quarter with solvency improving from 108% to 109%.
- ◆ The positive performance of the majority of Fund Managers was highlighted.
- ◆ Details relating to yields and bond mandates were provided.
- ◆ Details of the slight downturn in the markets since the end of the previous quarter were highlighted and a brief update on the current position was provided. It was emphasised that the full position for the quarter was not yet in place.

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

- ◆ An increase in volatility in the markets of late and the reasons behind that.
- ◆ Issues around the proposed dis-investment, agreed at the previous meeting, and why that had not taken place as yet. It was stated that this would be undertaken shortly.
- ◆ Concerns over some of the Diversified Growth Fund (DGF) performance.
- ◆ A discussion around the performance of Newton.
- ◆ The continuance of the development of the Investment Strategy so as to lessen the impact of volatility in the markets and maintain the current solvency position as far as possible.
- ◆ Possible alternative investment opportunities to DGFs, including hedge funds.
- ◆ The availability of appropriate investment opportunities, in line with the Investment Strategy, within the pooling arrangements, including whether existing Fund Managers would be available within those arrangements.
- ◆ The risk of having large amounts of investment controlled by one Fund Manager against the high returns produced which had brought the Fund to its current solvency position. Acknowledgement of the need to maintain the current solvency position by reducing the risk.

Resolved -

That the report, and issues raised, be noted.

48. Procurement Update

Considered -

The report of the Treasurer updating Members on progress towards the procurement of an Insurance Linked Securities (ILS) Manager, including action on the following:-

- ◆ Determining the composition of a Member panel as part of the selection and evaluation process for the procurement of an ILS Manager.
- ◆ Delegating authority to the Treasurer, in consultation with the Chairman of the Pension Fund Committee, to select and appoint the successful ILS Manager.
- ◆ Determining and then delegating arrangements for the necessary funds to be dis-invested in order to fund an ILS Manager.
- ◆ Updating Members on the Property Debt Manager procurement.
- ◆ Delegating authorities to officers to undertake a custodian procurement.

The Treasurer stated that the Member selection and evaluation panel for the procurement of an ILS Manager would take place on Wednesday 28 February 2018 at the Yorwaste Office, Northallerton.

Members of the Committee would be invited to question the five selected Managers, with authority delegated to the Treasurer and Chairman of the Committee to appoint the successful Manager, following the interview process, to prevent the matter having to be returned to a meeting of the full Committee for a decision to be made, negating the need for special arrangements for that.

Details of the selection and evaluation panel were provided, including timings for the event.

Members indicated who would be able to attend.

The Treasurer stated that the Property Debt Manager procurement was ongoing and a full OJEU compliant procurement procedure would be undertaken at the conclusion of the Insurance Linked Securities Manager procurement.

In relation to the custodian procurement Members were asked to delegate responsibility to officers to carry out the procurement process.

Resolved -

- (i) That the Members who indicated their availability constitute the panel as part of the selection and evaluation process for the selection of the ILS Manager(s);
- (ii) That authority be delegated to the Treasurer in conjunction with the Chairman of the Pension Fund Committee to select and appoint the successful ILS Manager;
- (iii) That arrangements for the necessary funds to be dis-invested in order to fund an ILS Manager be delegated to officers; and
- (iv) That the update on the Property Debt Manager procurement be noted; and
- (v) That the authority to carry out a procurement for the custodian be delegated to officers.

49. Currency Hedging

Considered -

The report of the Treasurer outlining the following:-

- (i) An update for Members on progress towards the implementation of currency hedging.
- (ii) Determining the approach to hedging.
- (iii) Considering arrangements for monitoring and adjusting the hedge in future.
- (iv) Considering the governance arrangements for the proposed monitoring facility.

At recent Investment Strategy reviews, undertaken by the Pension Fund Committee, agreement had been given to the principle of currency hedging with authorisation given to officers to make the necessary arrangements to set up a currency hedging facility that would be activated based on a set of triggers. The Investment Consultants had worked with Members to consider various options for implementing currency hedging and it had been recommended that the best option would be to implement a currency hedging facility with Fidelity as they were the current Manager that holds around 20% of the Fund's overseas equity investments in a segregated mandate. This would provide the Fund with the option to hedge up to 20% of its overseas exposure at any one time. The consultants advised that hedging 20% could result in a reduction in currency risk of about half. Officers were currently in the process of updating documentation with Fidelity to allow this to take place.

A verbal update was provided at the meeting which indicated that, following changes in the currency situation, it was no longer considered appropriate to include US dollars in the process, due to the improvement in rates against sterling. It was considered appropriate, therefore, to proceed with the hedging arrangements, as previously discussed, against the Euro and Yen.

It was also noted that following the implementation of currency hedging it was proposed to monitor hedging levels and, as Fidelity did not have the facility to monitor specific market level based triggers proposals were provided to enable the Committee to take decisions on increasing or reducing the currency hedged when necessary.

The views of the consultant on currency hedging would be provided to the Fund on an ad-hoc basis and the Fund would need to be reactive to the recommendations, therefore, two proposals were provided as options as to how to undertake governance for this as follows:-

Option 1 - the views could be communicated to all PFC Members by email on an ad-hoc basis; this would require all Members approval for officers to implement any recommended changes.

Option 2 - a sub-committee of the PFC would be set up, with delegated decision-making powers on currency hedging, and emails would be sent to those Members to get approval on any changes to currency hedging levels.

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

- ◆ Members discussed the options in terms of the governance for monitoring currency hedging proposals and suggested that Option 2 would be the most efficient and effective way of undertaking this.

- ◆ The strategy for currency hedging was questioned, however, it was emphasised that the matter had been fully discussed at previous Investment Strategy workshop meetings and had been decided that this would be an effective way of addressing volatility in the investment structure, thereby protecting the current solvency position of the Fund. In relation to this matter it was noted that the sums involved were relatively low in terms of the overall Fund, therefore, there was little risk in the action being undertaken. It was emphasised that the protection offered would enable a small proportion of the Fund to be protected against subsequent currency volatility.
- ◆ It was noted that the Investment Consultants would provide an annual report on cost versus performance in terms of the currency hedging position and regular updates would be provided in their quarterly monitoring reports.

Resolved -

- (i) That the approach to hedging be agreed as outlined;
- (ii) That the proposal for AON Hewitt to provide a monitoring facility to allow the currency hedge to be adjusted going forward, at a cost of £4k per quarter, be approved;
- (iii) That Option 2, as outlined above, be agreed to provide the governance for the monitoring facility, with the quorum for decisions being any three voting Members of the full Committee.

50. Pooling Arrangements

Considered -

The report of the Treasurer updating Members on progress towards the Government's announced proposal to pool the assets of LGPS Funds.

Members considered that the majority of issues relating to pooling were discussed earlier in the meeting.

Reassurances were again sought that details of budgets and staffing structures would be provided to Members of both the Pension Fund Committee and Pension Board, as previously requested. The Treasurer again stated that he was discussing this matter with the appropriate representatives of BCPP and, once appropriate checks had been made on confidentiality, details would be emailed out to all Members of both the Pension Fund Committee and the Pension Board.

A Member asked that the concerns that he raised earlier in the meeting in respect of the non-interviewing of former Pension Fund Committee Member Roger Harrison-Topham in relation to the non-Executive Director position on BCPP, be conveyed to the Chief Executive of the BCPP accordingly.

Resolved -

That the content of the reports be noted and the issues, as outlined above, be acted upon accordingly.

51. Pension Board - Draft Minutes of the Meeting held on 18 January 2018

Considered -

The draft Minutes of the Pension Board held on 18 January 2018.

The Chairman of the Pension Board noted that amendments had been made to the Minutes, following their initial publication, and a revised version had now been published alongside the Pension Fund Committee papers on the website.

The Chairman of the Pension Board highlighted the following significant issues that had been discussed at that meeting:-

- ◆ The current vacancy on the Pension Board for a Scheme Member representative - interviews had been held immediately prior to the meeting of the Pension Fund Committee and, subject to clarification between those involved in the interview process, it was expected that the vacancy would be filled, with details brought to a subsequent meeting of the Pension Fund Committee.
- ◆ It was noted that an employer representative, Phil MacDonald, would be stepping down from the Pension Board, following him leaving his current employment at Hull University, and, therefore, being unable to represent North Yorkshire Pension Fund on the Board. A recruitment exercise would be undertaken in relation to the vacancy.
- ◆ The Treasurer of North Yorkshire Pension Fund had attended the Pension Board meeting and details of the discussions held were outlined in the Minutes. It was expected that this would be an annual event for the Pension Board, unless details were required from the Treasurer in the interim.
- ◆ The Terms of Reference of the Board had been reviewed, with no changes identified at present, however, this could change as the framework for the pooling arrangements became clearer and, therefore, subsequent reports may be required.
- ◆ Details of the breaches log and policy, as outlined earlier at this meeting, were discussed.
- ◆ Internal Audit reports for the Pension Fund were considered and details of the levels of assurance provided.
- ◆ Review of the Risk Register was undertaken.
- ◆ Comments were provided in relation to the draft Stewardship Code which, again, was considered earlier at this meeting.

Resolved –

that the minutes be noted.

The meeting concluded at 12.55 pm

SL/JR