Agenda

Meeting: Pension Fund Committee

Venue: Oak Room, County Hall, Northallerton, DL7 8AD

(location plan attached)

Date: Thursday 21 February 2019 at 10 am

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Business

1. **Exclusion of the Public and Press – Exclusion of the public and press from the meeting during consideration of the item of business listed in Column 1 of the following table on the grounds that it involves the likely disclosure of exempt information as defined in the paragraph(s) specified in column 2 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government (Access to information)(Variation) Order 2006:-**

Item number on the agenda	Paragraph Number
5	3

2. **Minutes of the meeting held on 22nd November 2018**

(Pages 6 to 16)

3. **Declarations of Interest**

Enquiries relating to this agenda please contact Steve Loach Tel: 01609 532216
or e-mail stephen.loach@northyorks.gov.uk Website: www.northyorks.gov.uk

4. Public Questions or Statements

Members of the public may ask questions or make statements at this meeting if they have given notice (including the text of the question/statement) to Steve Loach of Democratic Services *(contact details at the foot of page 1 of the Agenda sheet)* by midday on Monday 18 February 2019. Each speaker should limit themselves to 3 minutes on any item. Members of the public who have given notice will be invited to speak:-

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

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

5. Investment Strategy - Report of the Treasurer

(Report not yet available)

6. Pensions Administration Report - Report of the Treasurer **(Pages 17 to 30)**

7. Budget/Statistics - Report of the Treasurer **(Pages 31 to 44)**

8. Performance of the Portfolio - Report of the Treasurer **(Pages 45 to 60)**

9. Pooling Arrangements - Report of the Treasurer **(Pages 61 to 81)**

10. Pension Board – Draft Minutes of the meeting held on 24 January 2019 - Copy of the draft Minutes enclosed **-** Verbal update by the Chair of the Pension Board.

(Draft Minutes not yet available)

11. Such other business as, in the opinion of the Chairman should, by reason of special circumstances, be considered as a matter of urgency

NOTE:

Following the formal meeting there will be an informal session on Equity Protection. Lunch will be provided.

These afternoon sessions will replace the meeting on Friday 22 February

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

February 2019

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 (8)		
	Councillors Names	*Political Group*
1	BLACKIE, John	NY Independents
2	CHAMBERS, Michael MBE	Conservative
3	LUNN, Cliff	Conservative
4	MULLIGAN, Patrick	Conservative
5	SOLLOWAY, Andy	Independent
6	SWIERS, Helen (Vice-Chairman)	Conservative
7	THOMPSON, Angus	Conservative
8	WEIGHELL, John OBE (Chairman)	Conservative

Members other than County Councillors (1 and 2) Voting (3) Non-voting		
1	GILLIES, Ian	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**

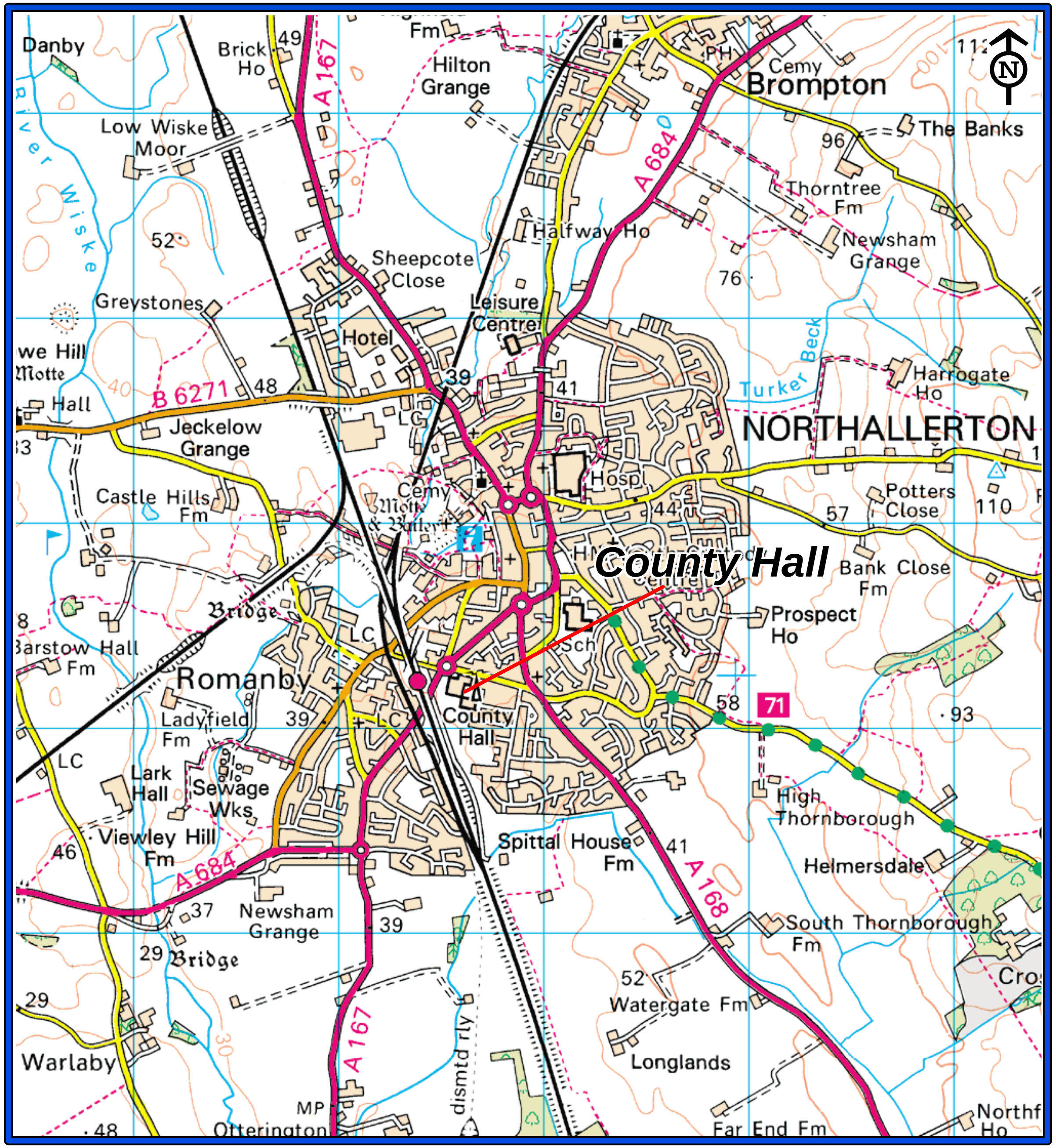
Con	Lib Dem	NY Ind	Labour	Ind	Other Voting Members
6	0	1	0	1	2

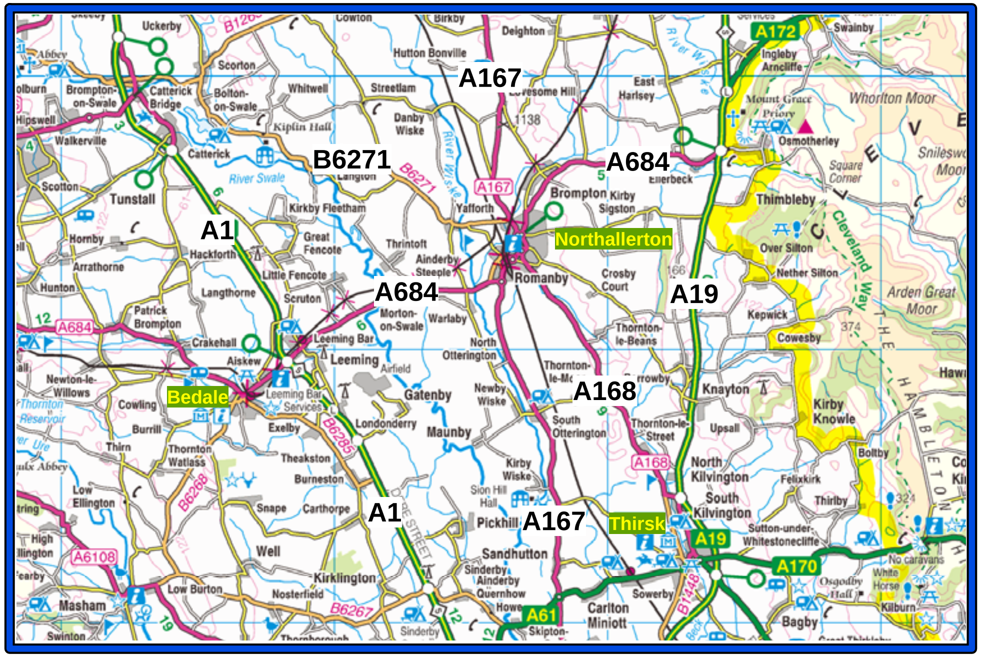
2. Substitute Members

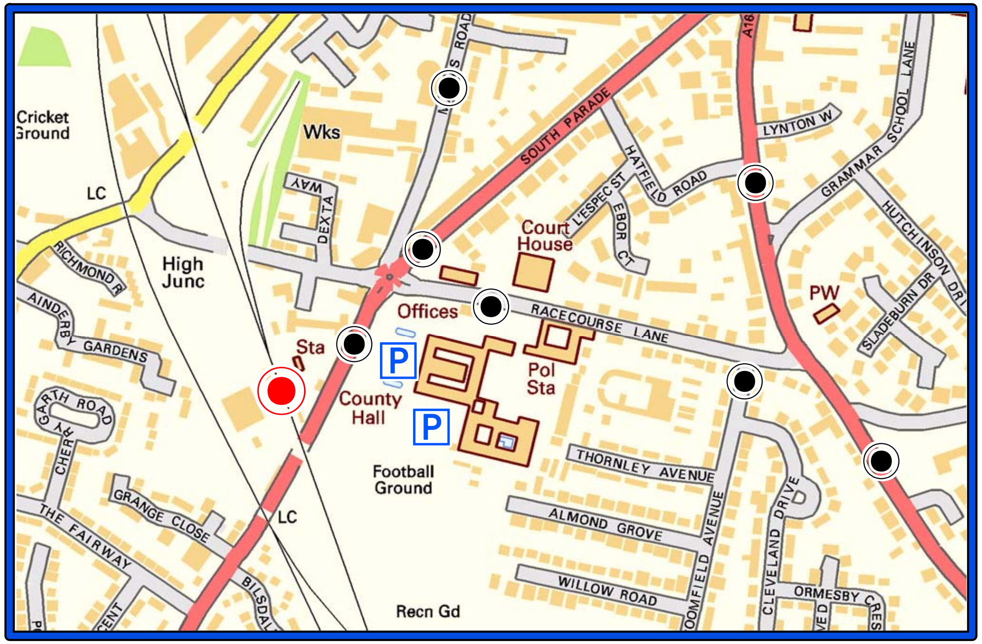
Conservative			
	Councillors Names		*Councillors Names*
1	BLADES, David	**1**	
2	PEARSON, Chris	**2**	
3	LES, Carl	**3**	
4	WINDASS, Robert	**4**	
5	MANN, John	**5**	
NY Independents			
	Councillors Names		
1			
2			
3			
4			
5			

3. Substitute Members

1	STEWARD, Chris	City of York
2	PEACOCK, Yvonne	North Yorkshire District Councils







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DL7 8AD

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North Yorkshire County Council

North Yorkshire County Council

Pension Fund Committee

Minutes of the Meeting held on 22 November 2018 at County Hall, Northallerton commencing at 10.00 a.m.

Present:-

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

Councillor Ian Gillies - City of York Council.

Councillor Jim Clark - North Yorkshire District Councils.

David Portlock - Chair of the Pension Board.

In attendance:-

Brian Hazeldine (Unison)

Apologies were received from County Councillors Andy Solloway and Angus Thompson

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Copies of all documents considered are in the Minute Book

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89. Exclusion of the Public and Press

Resolved -

That the public and press be excluded from the meeting during consideration of Minute No. 94 - Investment Strategy - Transition of Funds, on the grounds that this involves 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.

90. Minutes

Resolved -

That the Minutes of the meeting held on 13 September 2018, and the special meeting held on 31 October 2018, be taken as read and confirmed and signed by the Chairman as a correct record.

91. Declarations of Interest

The Monitoring Officer attended the meeting to explain the current position of County Councillor John Weighell OBE, Chairman of the Committee. He noted that the Chairman had recently been appointed as a non-Executive Director of Border to Coast Pensions Partnership (BCPP), the company formed to pool the assets of a number of Local Government Pension Funds, including North Yorkshire Pension Fund (NYPF). He noted that, as a remunerated post, the position became a disclosable pecuniary interest when issues relating to the BCPP were discussed. In relation to this matter

County Councillor Weighell had submitted a request for a dispensation, allowing him to continue to chair the meeting and take part in the consideration of issues relating to the BCPP. At this stage the Monitoring Officer had granted County Councillor Weighell a temporary dispensation, for the purposes of this meeting only, with the position being referred to the Standards Committee, allowing it to be determined whether a dispensation would be granted on a more permanent basis, and outlining the terms of that.

In relation to the advice provided by the Monitoring Officer, County Councillor John Weighell declared a disclosable pecuniary interest in respect of items that referred to the BCPP, however, he also declared a temporary dispensation, for the purposes of this meeting only, allowing him to take part and chair the meeting during those items.

92. Public Questions or Statements

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

93. Pensions Administration Report

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

- The Performance Indicator statistics had taken a slight dip due to the high work volumes and high demand being experienced by the team.
- Issues relating to AVCs had been addressed through the NYPF AVC provider, Prudential.
- The issues raised within the complaints item were being addressed.
- All the files had now been received in relation to the 2018 Annual Benefit Statements. Issues around delays to the receipt of the necessary information were being addressed directly with those involved.
- A draft of the amended Admissions and Terminations Policy was attached to the report and it was noted that this had been fundamentally changed to bring it in line with new regulations and processes of the Fund.
- The GMP reconciliation project was progressing, however, it was very likely that this would extend beyond the expected conclusion date as a large number of responses were still awaited from HMRC.
- Issues around the publication of the Annual Benefits Statements for 2018 were considered and it was noted that the matter had been discussed at the Pension Board
- The letters project had re-commenced and progress was being made.
- The contract for the existing administration software was due to expire on 31 December 2019. A full review of requirements was underway to determine

whether the current software and its provider were capable of meeting the needs of the Pension Fund going forward. The review would not be completed in time for the expiry of the contract, therefore, it had been agreed that at least one year of a possible two year extension would be invoked.

The following issues and points were raised in relation to the report:-

- The Chairman welcomed the amended Admissions and Terminations Policy, noting that the amendments ensured that the policy met the current regulations.

- Clarification was provided in relation to the current position of the GMP reconciliation and the need to extend the deadline for completion.

- The Chairman of the Pension Board provided details of the discussion relating to the publication of the Annual Benefit Statements that had taken place at the recent meeting of the Pension Board and the implications of not issuing these in line with the prescribed deadlines. It was noted that positive action was being taken to ensure that the deadlines were met

Resolved -

(i) That the contents of the report be noted.

(ii) That the Admissions and Terminations Policy, as appended to the report, be approved.

(iii) That the contents of the Breaches Log, as appended to the report, be noted.

Minute No. 94 - Investments Strategy - Transition of Funds - included confidential details, as outlined at Minute No. 89, and, as such, the Minute below reflects the confidential nature of some of that information.

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94. Investments Strategy - Transition of Funds

Considered -

The report of the Treasurer requesting Members to:-

(i) approve, in principle, the transition of funds into the BCPP externally managed global equity alpha fund, subject to further due diligence;

(ii) determine the indicative level of investment in the BCPP externally managed global equity alpha fund;

(iii) review the allocation to UK equities;

(iv) consider the transition of UK equities to BCPP; and

(v) consider the initial investment to private equities.

Members initially raised concerns regarding the provision of the information for this item, suggesting that when a large amount of complex data was to be considered by the Committee it would be more appropriate for this to be provided as a printed version, rather than expecting Members to scroll through the details on a relatively small screen. In response it was stated that the issue raised would be taken account of for future meetings.

The Treasurer and Members, assisted in their discussions by relevant officers, representatives of the investment consultants (AON Hewitt) and the independent investment adviser, considered the issues in the order highlighted below, with the discussions outlined accordingly.

Private Equities

Pension Fund Committees had been asked to indicate the level of private equity investment they would be undertaking with the BCPP in 2019, by the end of the calendar year.

It was noted that, currently, private equity investments did not feature in the Investment Strategy of the NYPF and, given the current de-risking of the investments, it was considered not to make strategic sense to introduce these investments at this stage.

During a discussion of this matter the following issues and points were raised:-

- Private equities did not form part of the Investment Strategy currently, however, this did not mean that they could not be considered as part of the Strategy in future, therefore, it would be appropriate to inform the BCPP that there would be no investment at this time.

- A much more detailed consideration of private equities would be required should the NYPF wish to undertake investments within that portfolio.

- Private equity investments were not seen as de-risking investments, in line with the current Strategy.

- A discussion took place in relation to the transition to the Pool and it was noted that, following recent discussions, Pension Funds would not necessarily have to transfer all their investments into the pooling arrangements, should there be no facility or portfolio that was appropriate for their specific needs. In respect of this it was emphasised that it was still expected that the majority of investments would be undertaken by the Pool, and that there could be some pressure from Central Government to ensure that all investments were undertaken through the pooling arrangements. It was expected that there would be contributions from each of the Pension Funds to the various asset classes available through the pooling arrangements, and an expectation that, eventually, investments would be exclusively through the Pool. However, in the interim, Pension Funds were expected to indicate a substantial contribution towards the asset class investments, rather than dedicate 100% of their investments over to those. It was stated that providing the Pool with a high level of funding enabled them to approach the market for investments from an appropriate trading position. Members welcomed the clarification in relation to this position.

- Members agreed that they would not wish to undertake an initial investment in private equities at this stage, as the asset class was not currently within the NYPF's Investment Strategy, and had not been considered, in-depth, in view of that.

UK Equities

The Fund currently had a 5.1% allocation to UK equities invested with Standard Life. In November 2017 the Pension Fund Committee agreed to fully dis-invest from the mandate to invest in alternative asset classes, in particular insurance link securities and property debt. A further review in September 2018 agreed that the 5% allocation to property debt should come from global equities.

In September 2018 an Investment Strategy Workshop considered the allocation split between UK and global equities. This outlined the preference to retain an allocation to UK equities in the Strategy, with 5% being recommended in terms of that allocation.

The options available for the UK equity allocation were detailed as follows:-

- ♦ Transition into the BCPP internally managed UK equity sub-fund.
- ♦ Transition into the BCPP externally managed UK equity sub-fund.
- ♦ Retain the Standard Life mandate outside of the BCPP.
- ♦ Invest passively outside of BCPP.
- ♦ Invest in a new mandate outside of the BCPP.

Members' discussions in relation to those options highlighted the following:-

- ♦ Members agreed that they would wish to continue with an exposure to UK equities, but did not wish to retain the Standard Life mandate.

- ♦ Presentations at the recent BCPP Conference had provided details of the managers for the internally and externally managed UK equity sub-funds within the BCPP, which had been informative.

- ♦ Investment consultants, AON Hewitt, provided Members with the structured breakdown of potential Funds and the "pros and cons" of each option. Details of fees were also outlined. The independent investment adviser also provided his opinion in respect of the potential allocation to UK equities and the potential Fund Managers operating within the BCPP.

- ♦ Details of how the investment, currently managed by Standard Life, would be split between different styles, should the Committee decide to undertake the transition into the BCPP externally managed UK equity sub-fund, were outlined.

- ♦ Consideration was also given to transition into the BCPP internally managed UK equity sub-fund, however, it was suggested that this would not be in line with what was required from the exposure to UK equities.

Global Equities

It was stated that the BCPP externally managed global equity alpha fund was due to be launched in July 2019 and a detailed timeline was provided in relation to that. A tender process for the external managers was due to start early in the new calendar year and each Fund was requested to indicate how much they intended to commit to the externally managed global equity alpha fund to help inform that particular process.

It was stated that the decision around that would not be considered in isolation as there were a number of options available for the Fund's global equities allocation. These were detailed as follows:

- Transition into the BCPP externally managed global equity alpha fund.

- Transition into the BCPP internally managed overseas developed markets equity fund.

- Retain some or all of the current investments outside of the BCPP.

- Invest passively outside of the BCPP.

The options had been evaluated and details were provided within the report. Discussions took place in relation to the options

The following issues and points were highlighted:-

- Any decision undertaken would be subject to due diligence and, therefore, would be "in principle" at this stage.

- Clarification was provided as to what was meant by the global equity alpha fund as opposed to the overseas developed markets equity fund and it was explained that the global equity alpha fund would cover the current global equity investments held by the NYPF.

- Concern was expressed that Members were being asked to make a decision on this matter before the appointment of the Fund Managers within the BCPP portfolio. It was explained that, similar to UK equities, the BCPP would require knowledge of the sum likely to be invested so as to fully inform the procurement process that would take place in relation to the appointment of Fund Managers. The BCPP would be unable to go into the market without an approximate figure in place.

- Clarification was provided as to the current value of global equity investments held by the NYPF - around £1.7bn as of October 2018.

- A further discussion took place in relation to committing to investment without Fund Managers being in place. It was noted that it was unlikely that the Fund Managers would be appointed until March/April 2019 and that the BCPP required details of the funding that they would be investing with the managers, in advance of the appointments, to minimise costs and fees. Members reaffirmed their concerns regarding making a commitment without full details in place, however, it was emphasised that due diligence would be undertaken before the funds were transitioned and the decision for Members was to provide an "in principle" figure at this stage.

- Details provided by the investment consultant, AON Hewitt, outlined the Investment Strategy in relation to global equities and the move to de-risk those investments in view of the current solvency position of the Fund.

  Clarification was provided in relation to a difference in figures within AON Hewitt's reports in terms of global equities allocation. It was noted that there had been changes to the allocation between the two figures set out, following the decision to invest in property debt and hold the allocation in cash until an investment took place. It was also noted that there had been significant movements in the market since the end of June leading to a diminishing position in terms of global equity investments. The decrease in global equity investments since 2010 was outlined and it was noted that there had been a substantial drop, in a move to de-risk the Fund's investments. Members discussed how previously the Fund had adopted a high risk Investment Strategy and was now moving to lower that risk in view of the solvency position.

- A discussion was undertaken in relation to committing to an amount of funding from the global equities portfolio, in principle, to enable the BCPP to move forward with their Procurement Strategy, whilst at the same time retaining an amount of funding to be invested directly by the NYPF. Further discussions around the principle of that arrangement and the likely investment figures were undertaken, together with the potential Fund Managers that would be retained by the NYPF. Within these discussions it was noted that should Central Government intervene, insisting that transition to the pooling arrangement should be 100%, then a robust defence of the action taken by the NYPF would be provided.

- It was suggested that, in principle, £1bn be committed to the BCPP's externally managed global equity alpha fund, subject to due diligence, with the NYPF retaining £700m to invest accordingly. Further discussions would then be undertaken with regards to where the dis-investments would be undertaken to fund the commitment to the BCPP and how the retained funds would be invested. The Fund's independent investment adviser outlined his slight concerns regarding the amount to be retained, rather than transitioned, in terms of maintaining the Investment Strategy and returns for investments, particularly given the current nature of the markets and potential impacts that could increase volatility. In response to the issues raised Members indicated that they were comfortable with the Strategy outlined in terms of the commitment and retention of investments in relation to global equities, emphasising the need to undertake a decision that was right for the NYPF and its members.

- As a safeguard, the Fund's investment consultants suggested that the commitment to the £1bn to the BCPP's externally managed global equity alpha fund should have the proviso that this amount was based on current market conditions.

<u>Aberdeen Standard Investment - GARS</u>

The Fund's investment consultants, AON Hewitt, provided details of the Aberdeen Standard Investment - GARS, which had been undertaken as a de-risking investment by the Pension Fund.

They outlined a number of issues of concern that had arisen in respect of the investment which had resulted in them placing the GARS Strategy "in review".

As a result AON Hewitt were recommending to the Pension Fund Committee that Aberdeen Standard Investment - GARS be subject to dis-investment and an alternative strategy for re-investing those funds was outlined.

The Fund's independent investment adviser concurred with the views set out by the investment consultant and outlined his concerns with regards to the GARS investment.

Resolved -

(i) That the transition of funds into the BCPP externally managed global equity alpha fund, subject to further due diligence, be approved in principle;

(ii) That the sum of £1bn be committed, in principle, to the BCPP externally managed global equity alpha fund;

(iii) That a 5% allocation to UK equities be retained within the Fund

(iv) That the current 5% allocation to UK equities with Standard Life be dis-invested;

(v) That the transition of the 5% UK equities allocation to the BCPP into the externally managed UK equity sub-fund be approved, subject to due diligence, this being delegated to the Treasurer, in consultation with the Chairman of the Pension Fund Committee;

(vi) That the BCPP be informed that the NYPF are not to invest in private equities at this stage;

(vii) That the Treasurer be delegated authority to carry out the dis-investment from the Aberdeen Standard Investment - GARS and to determine an appropriate strategy for the re-investment of that money.

95. Budget/Statistics

Considered -

The report of the Treasurer on the following:-

(a) 2018/19 Budget - cost of running the Fund.

(b) The three year cash-flow projection of the Fund.

2018/19 Budget

The outturn was forecast to be £1.2m over budget at £23m, due to an increase in the estimated management fees for the year.

Three year Cash-Flow Projection

The cash flow projection included the contribution income and benefits payable, the main inflow and outflow of the Fund, which would determine when the Fund would turn cash-flow negative.

The estimated cash-flow of the Fund in 2018/19 was a £8.6m deficit. This had increased from the last quarter where a £6.8m deficit was reported. The deficit was due to the £13m pre-payment of deficit contributions relating to 2018/19, in 2017/18. The increase in deficit was due to a decrease in the forecasted contributions cash-flow which had resulted from a further decrease in active members and an increase in benefit payments due to an increase in pensioner numbers. It was expected that the Fund would be back in a surplus cash position during 2020/21 assuming that employer contribution rates remained the same following the forthcoming triennial valuation, therefore, this position could be subject to change.

The following issues were raised:-

- A Member asked, given that the solvency of the Fund was currently at 115%, whether contribution rates could be lower following the triennial valuation. In response the Treasurer stated that the position would be negotiated and would continue to be monitored and reported to the Pension Fund Committee in terms of how that may affect the cash-flow position, going forward. It was noted that, as had happened previously, employers may decide to make larger initial contributions, at a discounted rate, which would provide an enhancement to the cash-flow position initially, but, similar to this time, would result in cash-flow diminishing towards the end of the valuation period. Again it was emphasised that the position would continue to be monitored and reported to the Pension Fund Committee.

Resolved -

That the report be noted.

96. Performance of the Fund's Portfolio

Considered -

The report of the Treasurer reporting the investment performance of the overall Fund, and of the individual Fund Managers, for the period to 30 September 2018. The report indicated that the absolute overall return for the quarter (+1.6%) was below the customised benchmark for the Fund (+2.2%) by -0.6%.

The 12 month absolute rolling return was +10.5%, +2.8% above the customised benchmark of 7.7%.

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

- Overseas equities.
- Global equities.
- UK equities.
- Fixed income.
- Property.
- Diversified growth funds.
- Private debt.
- Insurance linked securities.

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

It was noted that the details in relation to the performance of the Fund were extensively discussed during an earlier item on the agenda (Minute No. 94 - Investment Strategy - Transition of Funds).

Resolved -

That the investment performance of the Fund for the period ending 30 September 2018 be noted.

97. 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.

The BCPP Annual Conference had been held in Leeds on 8 and 9 November 2018 and was well attended by the partner funds.

A Joint Committee meeting had been held on 21 November 2018.

It was noted that the Chair of the Pension Fund Committee, County Councillor John Weighell OBE, had now been formally appointed as a shareholder nominated non-Executive Director of the Board of the BCPP. As a result he had been required to stand down from the Joint Committee. In relation to that, County Councillor Patrick Mulligan had attended the most recent meeting of the Joint Committee to represent the Pension Fund Committee.

The latest versions of the BCPP Responsible Investment Policy and Corporate Governance and Voting Guidelines had been taken to the Joint Committee on 21 November 2018 and would be brought to Pension Fund Committee for consideration in due course.

The next meeting of the BCPP Joint Committee would be on 11 March 2019.

A Member asked whether it would be possible for Members of the Pension Fund Committee to view the offices of the BCPP and proposed that a meeting of the Pension Fund Committee take place there, to accommodate this. The Chairman and the Treasurer stated that they would approach the BCPP with a view to this proposal taking place.

The Chair of the Pension Board stated that he had attended the BCPP Conference and was concerned that there had been little discussion in relation to the role of Pension Boards and the governance arrangements of the Pool. He considered that Pension Boards should have an opportunity to consider the process being adopted by the Pool and have an opportunity to comment on that. He noted the matter would be raised at a forthcoming meeting of the Pension Board and, following discussions, was aware that other Pension Boards, from the other Pension Funds involved in the Pool, had similar concerns. The Chairman acknowledged the concerns raised and stated that the matter would be raised with the BCPP to determine how to address this. The Treasurer noted the issue raised and indicated that the correct checks and balances needed to be in place, particularly as this was a Teckal company and would be expected to operate accordingly. The importance of this issue was appreciated and would be taken back to the BCPP.

A Member referred to the dispensation issue, discussed earlier in the meeting, and noting the Chairman's new appointment, asked that the matter be considered fully by the Standards Committee. He stated that he had full confidence in the Chairman and was delighted that he had been appointed to the Board, but emphasised the need for transparency in terms of the arrangements, and how those were perceived publicly, in terms of the continued Chairmanship of the Pension Fund Committee. It was noted that the issue was to be referred to the Standards Committee and that it would further consider the dispensation matter.

Resolved -

(i) That the report be noted.

(ii) That arrangements be made for a meeting of the Pension Fund Committee at the BCPP headquarters.

(iii) That further consideration be given to how the Pension Board would be involved in the consideration of the governance arrangements for the BCPP.

(iv) That it be noted that the dispensation issue in relation to the Chairman of the Pension Fund Committee, as detailed earlier in the meeting, would be considered further by the Standards Committee.

98. Pension Board - Draft Minutes of the Meeting held on 11 October 2018

Considered -

The draft Minutes of the Pension Board held on 11 October 2018.

The Chairman of the Pension Board stated that the significant issues that had been considered at the Pension Board meeting, the issuing of Annual Benefits' Statements and the lack of oversight of the governance of the Pool, had been discussed, in full, earlier in the meeting.

Resolved -

That the Minutes be noted.

The meeting concluded at 12.40 pm

SL/JR

North Yorkshire County Council

Pension Fund Committee

21 February 2019

Administration Report

Report of the Treasurer

1. Purpose of the Report

1.1. To provide Members with information relating to the administration of the Fund over the year to date and to provide an update on key issues and initiatives which impact the administration team.

2. Admission Agreements & New Academies

2.1. The latest position relating to Admission Agreements and schools converting to academy status in the year are shown in **Appendix 1**. Whilst the numbers in progress have decreased we have a large volume of academy conversions in the pipeline.

3. Administration

3.1. **Membership Statistics**

Membership Category	At 30/09/2018	+/- Change (%)	At 31/12/2018
Active	32,263	+2.22	32,979
Deferred	36,545	+0.63	36,774
Pensioner (incl spouse & dependant members)	22,130	+1.11	22,377
Total	**90,938**		**92,130**

3.2. **Throughput Statistics**

- Period from 1 October to 31 December 2018

Casetype	Cases Outstanding at Start	New Cases	Cases Closed	Cases Outstanding at End
Transfer In quotes	6	30	27	9
Transfer Out quotes	22	112	125	9
Employer estimates	9	184	178	15
Employee estimates	33	197	230	0
Retirement quotes	61	558	588	31
Preserved benefits	263	725	870	118
Death in payment or in service	36	59	70	25
Refunds	55	676	702	29
Actual retirement procedure	134	429	501	62
Interfund transfers	51	112	120	43
Aggregate member records	86	227	268	45
Process GMP	135	2	5	132
Others	90	420	426	84
Total Cases	**981**	**3731**	**4110**	**602**

- Alongside the above cases the Pensions team also handled 4,811 phone calls (average 100 per day) and 1,273 emails received via the Pensions Inbox (average 21 per day) in the quarter to 31 December 2018.
- The weekly focussed work days continue and continue to be successful in driving down the volume of outstanding work.

3.3. Performance Statistics

- The performance figures for the period 1 October 2018 to 31 December 2018 are as follows:

Performance Indicator	Target in period	Achieved
Measured work achieved within target	98%	93%
Customers surveyed ranking service good or excellent	94%	85%
Increase numbers of registered self-service users by 700 per quarter	700	627

- High work volumes and high demand within the team continue to impact our ability to meet the agreed performance indicator for work achieved within target however, we have seen an improvement in this quarter compared to the last one. The administration team continue to focus on reducing the outstanding work and focusing on ensuring the day to day business as usual work is being processed within agreed timescales. We continue to chase employers on a regular basis for all outstanding queries.

3.4. Commendations and Complaints

- This quarter the following commendations and complaints were received:

Commendations

Date	Number	Summary
Oct 2018	1	Knowledgeable, approachable and patient
Nov 2018	5	Helpful staff & service was exceptional
Dec 2018	2	Excellent service

Complaints

Date	Number	Summary
Oct 2018	1 1	Regulatory - Incorrect AVC options provided to member by Prudential IHER appeal
Nov 2018	1	IHER appeal
Dec 2018	2 1	Administration - Member transferred benefits out in 2014 and it has become apparent it was a scam - Tell Us Once notification not received and pension instalment paid in error IHER appeal

- The complaint categories are:

1. Administration - these can relate to errors in calculations, delays in processing and making payment of benefits.
2. Regulatory - these relate to a complaint where regulations prevent the member being able to do what they want to.
3. Ill Health Early Retirement appeal - these are where members have been declined for early retirement on the grounds of ill health and are appealing the decision through the Internal Disputes Resolution Procedure.

Lessons Learned

Having reviewed the complaints received in the period there were no obvious trends or lessons to be learnt. It has however, become apparent that we appear to have a problem receiving some notifications via the Tell Us Once system which we are following up with the DWP.

3.5. **Annual Benefit Statements 2018**

- The final position relating to the 2018 annual benefit statement exercise is as follows:

  Actives: 96.25% issued (29,098 statements produced out of 30,233)
  The remaining 1,135 are unable to be issued due to the following reasons:
  254 – member did not work in post in 17/18
  881 – record marked as having an issue, could be data query or ongoing task. Queries continue to be pursued with the relevant parties.
  Deferreds: 100% issued (36,317 statements produced out of 36,317)

- Work is well underway on the 2019 year end and benefit statement process.

4. Issues and Initiatives

4.1. **GMP Reconciliation**

- The reconciliation stage of the project is continuing to progress. HMRC have now stopped accepting scheme reconciliation queries and responses to outstanding queries which are already in progress will be received until 6th April. ITM are preparing the rectification stage document and this was expected to be received week commencing 14th January.

- Once this is received the rectification stage can be planned and scheduled to correct records.

- Current position:

Status	Reconciled	Unreconciled
Active	24,542	2,531
Deferred	31,204	2,082
Pensioner	17,536	2,112
Other admin	1,026	2,515
HMRC		4,040
Totals	**74,308**	**13,280**

4.2. **Data Score and Improvement Plan**

- In line with the requirement introduced by the Pensions Regulator, to include each fund's data score in the annual return with effect from 2018, NYPF have submitted the following scores:

  Common Data: 93.47%
  Conditional Data: 85.26%

- Common data is that set of data that is defined as necessary and applicable to all members of all schemes. This data is that required to identify scheme members. For example, surname, date of birth, national insurance number, address, etc. There are 10 data items listed by the Pensions Regulator as being classed as common data.
- Conditional data is that set of data that is defined as additional detailed data required for the administration of a pension scheme. This data is dependent on scheme type, structure and system design. For example, employer, salary history, contributions, transfer in details, etc.

- The valuation data extract was used this year as we are still awaiting clarification from the Regulator regarding which data items should be included. Aon have undertaken a pre valuation data quality check and it was this report we used to measure the data quality against.

- From this a data improvement plan is being created to ensure quality and scores improve from year to year.

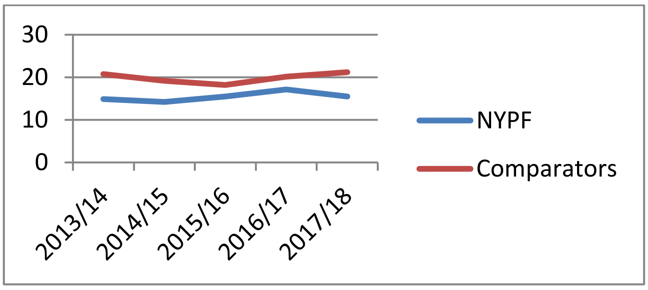
- The target set by the Pensions Regulator is 100% for common data created after June 2010 and 95% for common data created after this date. Targets for the standards of conditional data should be set by the Committee in conjunction with the administrators of the scheme. The NYPF proposes a target of 95% as being both reasonable and achievable taking account of the volume and nature of this data.

- Alongside this we are using the Aon report to cleanse the data as much as possible prior to the 2019 valuation.

4.3. **CIPFA Benchmarking Return 2017/2018**

- The benchmarking results for the year 2017/2018 showed the unit cost for NYPF Pensions Administration was £15.46 compared with an average unit cost across the whole of the CIPFA Benchmarking Club of £21.16.

- NYPF continues to provide an administration service at a lower cost than funds of a similar size.



4.4. **Breaches Policy & Log**

- Included at **Appendix 2** is the North Yorkshire Pension Fund's Breaches Log for review. There are no new entries.

4.5. **Efficiency Initiatives**

- The letters project continues to make progress with new letters being created to support changes to processes. Progress was impacted by the upgrade of the administration system but issues are now resolved and work can recommence.

5. Member Training

5.1. The Member Training Record showing the training undertaken over the year to 31 December 2018 is attached as **Appendix 3**.

5.2. Members will be asked to complete the CIPFA Skills Matrix by the end of March as agreed in the 13 September 2018 PFC meeting. These responses will be collated and used to produce a training plan that will address any gaps.

5.3. Upcoming courses, seminars and conferences available to Members are set out in the schedule attached as **Appendix 4**. Please contact Adam Tennant (01609 535916 or email adam.tennant@northyorks.gov.uk) for further information or to reserve a place on an event.

6. Meeting Timetable

6.1 The latest timetable for forthcoming meetings of the Committee and Investment Manager meetings is attached as **Appendix 5**.

7. Recommendations

7.1. Members to note the contents of the report.

7.2. Members to note the contents of the Breaches Log.

Gary Fielding
Treasurer of North Yorkshire Pension Fund
NYCC
County Hall
Northallerton

13 February 2019

Appendix 1

Academy Conversions – 32 'in progress'

Name of School	**Local Education Authority**	**Multi Academy Trust (MAT) Name**	**Conversion Date**	**Current Position**
Ainderby Steeple CoE Primary School	NYCC	Dales Academies Trust	1.1.2019	Complete
George Pindar School	NYCC	Hope Learning Trust	1.3.2019	Will be progressed nearer the time
Graham School	NYCC	Hope Learning Trust	1.3.2019	Will be progressed nearer the time
Danesgate Community School	COYC	South York Multi Academy Trust	1.3.2019	Will be progressed nearer the time
Northallerton School & Sixth Form College	NYCC	Arete Learning Trust	1.4.2019	In progress
Skelton Primary School	COYC	Hope Learning Trust	1.4.2019	Will be progressed nearer the time
Starbeck Primary School	NYCC	Northern Star Academies Trust	1.4.2019	Will be progressed nearer the time
Sherburn High School	NYCC	Star Multi Academy Trust	1.8.2019	Will be progressed nearer the time
Sacred Heart Roman Catholic Voluntary Aided Primary School, Northallerton	NYCC	St Margaret Clitherow Academy Trust	1.9.2019	Will be progressed nearer the time
St Francis Xavier RC/CofE	NYCC	St Margaret Clitherow Academy Trust	1.9.2019	Will be progressed nearer the time
St Benedict's Roman Catholic Primary School, Ampleforth	NYCC	St Margaret Clitherow Academy Trust	1.9.2019	Will be progressed nearer the time
St George's Roman Catholic Primary School, Scarborough	NYCC	St Margaret Clitherow Academy Trust	1.9.2019	Will be progressed nearer the time
St Augustine's RC Secondary	NYCC	St Margaret Clitherow Academy Trust	1.9.2019	Will be progressed nearer the time
St Hedda's Roman Catholic Primary School	NYCC	St Margaret Clitherow Academy Trust	1.9.2019	Will be progressed nearer the time
St Hilda's Roman Catholic Primary School	NYCC	St Margaret Clitherow Academy Trust	1.9.2019	Will be progressed nearer the time
St Joseph's Roman Catholic Primary School, Pickering	NYCC	St Margaret Clitherow Academy Trust	1.9.2019	Will be progressed nearer the time
St Mary's Roman Catholic Primary School, Malton	NYCC	St Margaret Clitherow Academy Trust	1.9.2019	Will be progressed nearer the time

Name of School	Local Education Authority	Multi Academy Trust (MAT) Name	Conversion Date	Current Position
St Mary's Roman Catholic Primary School, Richmond	NYCC	St Margaret Clitherow Academy Trust	1.9.2019	Will be progressed nearer the time
St Peter's Roman Catholic Primary School	NYCC	St Margaret Clitherow Academy Trust	1.9.2019	Will be progressed nearer the time
St George's RC Primary School, York	COYC	St Margaret Clitherow Academy Trust	1.9.2019	Will be progressed nearer the time
All Saints, York	COYC	St Margaret Clitherow Academy Trust	1.9.2019	Will be progressed nearer the time
St Wilfrid's RC Primary School	COYC	St Margaret Clitherow Academy Trust	1.9.2019	Will be progressed nearer the time
St Aelred's York	COYC	St Margaret Clitherow Academy Trust	1.9.2019	Will be progressed nearer the time
OLQM York	COYC	St Margaret Clitherow Academy Trust	1.9.2019	Will be progressed nearer the time
Naburn CoE Primary School	COYC	South York Multi Academy Trust	Not known	Delayed from 1.10.2018. Will be progressed nearer the time
Lord Deramore's Primary School	COYC	South York Multi Academy Trust	Not known	Delayed from 1.11.2018. Will be progressed nearer the time
Fishergate Primary School	COYC	South York Multi Academy Trust	Not known	Delayed from 1.12.2018. Will be progressed nearer the time
Escrick CoE VC Primary School	NYCC	South York Multi Academy Trust	Not known	Will be progressed when conversion date known
St Oswald's CE Primary School	COYC	South York Multi Academy Trust	Not known	Will be progressed when conversion date known
Elvington CoE Primary School	COYC	South York Multi Academy Trust	Not known	Actuarial calculations provided based on conversion date of 1.7.18. Conversion delayed, new date not yet known
Langton Primary School	NYCC	Evolution Schools Learning Trust	Not known	Original conversion date was 1.10.2016 but MAT advised it has been delayed. New date not yet known.
Thirsk School & Sixth Form College	NYCC	Arete Learning Trust	Not known	Original conversion date was 1.2.2018. MAT has advised no definite agreement in place at present
Stillington Primary School	NYCC	Not yet known	1.2.2019	Proposed conversion date was 1.2.2019 with Hope Learning Trust. Project now on hold. School no longer converting with Hope Learning Trust and new sponsor being sought

Admission Bodies –14 'in progress'

Name of Employer	Name of Contractor	Staff Transfer Date	Current Position
City of York Council – Youth Persons Counselling Services	York Mind	1.1.2019	Complete
Tockwith CoE Primary Academy	Hutchison Catering Limited	10.12.2018	Complete
Outwood Primary Academy Greystone (Outwood Grange Academies Trust)	ISS Mediclean	5.11.2018	In progress – transfer of catering staff
Baldersby St James CoE Primary Academy (Hope Learning Trust)	Absolutely Catering Limited (part of the CH&Co Catering Group)	5.11.2018	In progress - transfer of catering staff
NYCC – catering contracts at: Bedale CoE Primary School Colburn Community Primary School Masham CE (VC) Primary School	Mellors Limited	1.9.2018	Not advised of transfers until October! Now in progress
NYCC - catering contracts at: Spofforth CoE Primary School Follifoot CoE Primary School Goldsborough CoE Primary School Sicklinghall Community Primary School	P&A Catering	TBC	Not advised of transfers until October! Now in progress
Barlby High School (Hope Learning Trust)	Hutchison Catering Ltd	4.3.2019	In progress - transfer of catering staff
Skelton School (COYC school joining the Hope Learning Trust 1.4.19)	Absolutely Catering Limited (part of the CH&Co Catering Group)	1.4.2019	Will be progressed nearer the time
City of York Council libraries	Contract not yet awarded	1.4.2019	Future service rate provided, admission agreement will be progressed nearer the time
City of York Council (Haxby Hall Care Home)	Yorkare Homes Ltd	June 2019	Future service rate provided, admission agreement will be progressed nearer the time. Transfer delayed from January 2019
Yorkshire Coast Homes			Possible merger with Coast & Country Housing Ltd. Coast & Country Housing Ltd transferred its engagements to YCH on 1.10.2018 and YCH changed its name to Beyond Housing Limited. Waiting to see if a merger goes ahead.

Exiting Employers – 6

Name of Employer	Date exited the Fund
OCS Group UK Limited	31.3.2017
Superclean Services Limited	16.7.2017
Joseph Rowntree Charitable Trust	31.12.2017
York Arts Education (Community Interest Company)	31.3.2018
Housing & Care 21	31.8.2018
Be Independent	TUPE transferred back to the City of York Council wef 1.8.18. Exit calculation in progress

Appendix 2

Date	Category	Description of Breach	Cause of Breach	Regulation being breached	Effect of Breach & Wider Implications	Response to Breach	Referred to PFC	Referred to PB	Outcome of Referral to PFC & PB	Reported to Regulator	Progress Review 1	Progress Review 2	Progress Review 3
31/08/2017	Administration	Statutory deadline for issuing of Annual Benefit Statements not met for all eligible members	Large backlog meant we were unable to establish which category members should fall into at statement date. Year End queries still outstanding at issue date.		85.88% of Active members received a statement = 14.12% did not 94.51% of Deferred members received a statement = 5.49% did not	Large backlog means we do not yet know actual total eligible for a statement. Continue to reduce the backlog with targetted initiatives. Target is to have a controlled work throughput by end 2018. Continue to work through errors & queries & issue ABS' when able to. Introduce monthly returns for our 2 largest employers by end of 2018 so that errors can be identifed in real time rather than at year end.	14/09/2017	19/01/2018	Noted the position, no requirement to report. Creation of Breaches Log to record position.	N	30/11/2017	28/02/2018	30/05/2018
08/11/2017	Administration	Statutory deadline for issuing Personal Savings Statements not met for all members	Human error		2 members received statements after the 6/10/2017 deadline. 192 manual calculations undertaken and 56 statements issued. 3.5% of members affected	Statements issued immediately. Process under review by team leader. Checklist created and process will be audited in 2018 to ensure checklist being used and process being robustly followed	22/02/2018	19/01/2018	PB - Noted the position, no requirement to report. PFC - Noted the position, no requirement to report.	N	30/04/2018	31/08/2018	30/09/2018
18/12/2017	Administration	Incorrectly paid trivial commutation to a member who has benefits with another fund and had not commuted those benefits	Human error		Member received benefits he wasn't entitled to. No other member affected. Payment is an unauthorised payment & must be reported to HMRC, resulting in tax liability at 55% for the member & additional tax for the scheme.	As soon as realised payment was unauthorised, informed member and reported to HMRC. Awaiting confirmation of scheme tax liability.	22/02/2018	19/01/2018	PB - Noted the position, no requirement to report. PFC - Noted the position, no requirement to report.	N - Reported to HMRC			
31/08/2018	Administration	Statutory deadline for issuing of Annual Benefit Statements not met for all eligible members	Year End queries still outstanding at issue date.		86.52% of Active members received a statement = 13.48% did not 99.76% of Deferred members received a statement = 0.24% did not	Backlog has been reduced so in a better position regarding correct eligibility for statements. Significant year end queries (2,399) have impacted statement production. Ers being chased for response. Continue to work through errors & queries & issue ABS' when able to. Viability of monthly returns being investigated	22/11/2018	11/10/2018	PB - noted the position, agreed not to report this time but will in 2019. PFC - noted position, agreed not to report this time.	N	N/A	N/A	N/A

Appendix 3

Date	Title or Nature of Course	Blackie J	Mulligan P	Swiers H	Weighell J	Clark J	Portlock D	M Chambers	A Solloway	A Thompson	C Lunn	I Gillies	C Steward	Unison (Vacancy)	Unison (Vacancy)
28 February - 2 March 2018	LGC Investment Seminar, Carden Park, Cheshire	✓													
7-9 March 2018	PLSA Investment Conference, Edinburgh	✓	✓	✓	✓	✓									
21-23 May 2018	PLSA Conference					✓									
25 May 2018	Property Debt Workshop	✓	✓	✓	✓	✓	✓	✓			✓				
18 June 2018	CIPFA Pension Board						✓								
27 June 2018	CIPFA Pension Board Annual Event						✓								

APPENDIX 4

UPCOMING TRAINING AVAILABLE TO MEMBERS

Provider	***Course / Conference Title***	***Date(s)***	***Location***	***Themes / Subjects Covered***
CIPFA	LGPS Members Spring Seminar	25 February 2019	Barnett Waddingham Leeds	They will provide the latest information updates, training on specific topics and opportunities for discussion and networking with members of other funds' boards.
CIPFA	LGPS Spring Officers Spring Seminar	25 February 2019	Barnett Waddingham Leeds	They will provide the latest information updates, training on specific topics and opportunities for discussion and networking with members of other funds' boards.
LGC	Investment Seminar	28 February - 1 March 2019	Carden Park Cheshire	Keeping the LGPS affordable and accessible through austerity and uncertain times. Content tbc.
PLSA	Investment Conference	6-8 March 2019	EICC Edinburgh	The conference is aimed at trustees, chief investment officers, pension scheme managers, asset managers and investment specialists. The forward looking programme focusses on the major trends and events affecting UK investors and markets. The conference consists of plenary and specialist stream sessions focusing on Defined Benefit, Defined Contribution, Investment & Governance as well as a new stream on Asset Allocation.

PLSA	Local Authority Conference	13-15 May 2019	De Vere Water Park Hotel Gloucestershire	A specialist pension event for Local Authorities, designed to look at the ever-changing Local Authority Pension Scheme. The conference includes keynote speeches, specialist breakout sessions, a Learning Zone, fringe meeting, a welcome drinks reception, conference dinner and exhibitions
PLSA	Annual Conference & Exhibition 2019	16-18 Oct 2019	Manchester Central, Windmill Street, Petersfield, Manchester, M2 3GX	Our flagship event, a three day conference attracting over 1,500 attendees – the most important event of the year for anyone involved in pensions (trustees, pension scheme managers, administrators, HR specialists, finance directors and their advisers). The event includes a trade exhibition of approximately 80 exhibition stands.
LAPFF	Annual Conference	4,5,6 December 2019	TBC	TBC – Save the date

APPENDIX 5

PENSION FUND COMMITTEE TIMETABLE FOR MEETINGS IN 2019

Meeting Date	Time & Venue	Event	Fund Managers
21 February 2019	10am, Oak Room	Pension Fund Committee	
23 May 2019	10am, Brierley Room	Pension Fund Committee	
24 May 2019	10am, TBC	Pension Fund Committee	2 Managers TBC
4 July 2019	10am, Brierley Room	Pension Fund Committee	
12 September 2019	10am, Brierley Room	Pension Fund Committee	
13 September 2019	10am, TBC	Pension Fund Committee	2 Managers TBC
21 November 2019	10am, Brierley Room	Pension Fund Committee	
22 November 2019	10am, TBC	Pension Fund Committee	2 Managers TBC

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

21 FEBRUARY 2019

BUDGET / STATISTICS

Report of the Treasurer

1.0 PURPOSE OF THE REPORT

1.1 To report on the following:

(a) 2018/19 budget- Cost of running the Fund (see section **2**)

(b) the 3 year cashflow projection for the Fund (see section **3**)

(c) NYPF Draft Business Plan (see section **4**)

(d) 2019/20 draft budget - Cost of running the Fund (see section **5**)

2.0 2018/19 BUDGET- COST OF RUNNING THE FUND

2.1 The latest forecast outturn position against the 2018/19 budget is attached as **Appendix 1**. The running costs of the Fund are currently forecast to be £1.5m under budget at £21.2m. The notable areas of change in the forecast are as follows:

- There have been lower than expected performance fees relating to equities for the period covering March 2018 to September 2018. This is in part due to a change in the performance fee level charged by the Manager and also due to lower levels of performance in equities over the period. The forecast outturn has therefore been reduced by £2.5m

- There has been an increase in the forecast for management fees of £1.2m due to an increase in the anticipated transaction costs and the overall value of the Fund.

- It is estimated that there will be an underspend against the 2018/19 BCPP Annual Operating Charge of around £0.1m that has been reflected in the forecast outturn.

3.0 3 YEAR CASHFLOW PROJECTION

3.1 The cash position of the Fund is presented in **Appendix 2**. The table shows the projected cashflows of the Fund over the next 3 years. This cashflow includes the contribution income and benefits payable, the main inflow and outflow of the Fund, which will determine when the Fund will turn cashflow negative. In addition to this it also includes all other items that go through the bank account, for example, any costs of administering the scheme; this provides a more accurate prediction of the cash position of the Fund.

3.2 The estimated cashflow for the Fund in 2018/19 is a £6m deficit; this has improved from last quarter where an £8.6m deficit was reported. This is due to the forecast reduced cost of administering the Fund as described in section 2 above.

3.3 There is also an estimated deficit cashflow position in 2019/20. These deficit positions in both 2018/19 and 2019/20 are due to the prepayment of deficit contributions in 2017/18 relating to the three years. This 2019/20 deficit is slightly higher than the deficit in 2018/19 due to the anticipated increase in pension benefit payments.

3.4 In 2020/21 the Fund is estimated to be back in a surplus cash position as it is assumed that deficits will be paid in the year by all employers. It is important to note that the 2020/21 cashflow estimates are assuming that employer contribution rates will remain the same following the 2019 Triennial Valuation so will be subject to change. Any changes in management fees and transition costs due to pooling have also not been taken into account in the cashflow estimate.

4.0 DRAFT 2019/20 BUSINESS PLAN

4.1 In the NYPF 2018/19 Business Plan ten key actions for the year were identified and approved by Members in the May 2018 Committee meeting. It was agreed that officers would provide a progress report against these key actions, this progress report is attached as **Appendix 4**.

4.2 The NYPF Business Plan is to be updated annually and it was agreed that this updated plan would be brought for approval along with the annual budget each year as the key priorities and the budget of the Fund are closely linked. The draft 2019/20 NYPF Business Plan is attached as **Appendix 5.** Any outstanding key actions from 2018/19 have been rolled forward to 2019/20 and some new actions have been identified.

4.3 The key activities for 2019/20 are as follows:

a) Website review - will take place throughout 2019/20 with a target for completion in Q4. The aim of this project is to develop and improve the website to enable members and employers to self-serve easily and efficiently. This will reduce the volume of work received by the team enabling staff to be more focussed on adding value and undertaking projects such as data cleansing and reconciliation.

b) Pensioner reconciliation project - will take place in 2019/20 with a target for completion in Q4. Pensioner data is held on two separate databases and they do not reconcile to each other. It is critical for liability assessment, funding position assessment and data quality measures that we establish an accurate pensioner payroll position which we can maintain and reconcile regularly.

c) People - the new structure being introduced in Q1 2019 within the pensions administration team will help deliver a number of activities identified in the business plan. The introduction of a new employer relationship role will develop employer engagement and partnership working so that we can improve the quality and timeliness of information being received which in turn increases efficiency. Charging of employers will also commence in 2019/20 to try and improve the data for employers that repeatedly provide incorrect data.

d) **Investment Strategy Review**- the Fund will undertake an investment strategy review as part of the 2019 Triennial Valuation to ensure that the Strategy is in line with the funding position of the Fund. This will also be linked with transition of funds to the pool to ensure that we do not incur unnecessary transition costs due to changes in strategy.

e) **Pooling**- There will continue to be a large amount of work carried out on the transitioning of funds to BCPP during 2019/20 and ensuring that sub-funds are set up that will meet the needs of the NYPF Investment Strategy.

f) **2019 Triennial Valuation**- work on the Valuation will be undertaken during 2019/20 and new employer rates will commence from April 2020.

4.4 Members are asked to approve the Draft Business Plan.

5.0 DRAFT 2019/20 BUDGET

5.1 The draft 2019/20 budget for the Cost of running the Pension Fund is presented in **Appendix 3** and totals £22.6m. This budget only includes the costs that the Fund has control over and has been developed on an accruals basis.

5.2 The total 2019/20 budget is broadly in line with the 2018/19 budget, however there have been some movement across the budget lines reported. The key changes to the budget figures from the 2018/19 budget are as follows:

- The Pooling Annual Operating Charge has been updated to reflect the new 2019/20 charge from BCPP. In 2019/20 the Annual Operating Charge will be £980k. This is made up of a governance element which is split on a one twelfth basis and an AUM charge based on the Fund’s strategic asset split at March 2018.

- The pooling implementation costs line has now been removed as the set-up of BCPP was completed in 2018/19. This has been replaced with a one-off Projects Budget for 2019/20. The total BCPP budget for project costs is £1.6m, of which the NYPF element is around £140k on a one twelfth basis. This project budget is to cover the set-up of the Alternatives and Global Equity sub-funds.

- The investment management fees have been increased by £900k. The changes in Annual Management fees during the year as a result of disinvesting from current managers and transitioning into the pool have not been reflected in this budget, with the exception of UK Equities, as the changes in fees are an unknown at this stage until each sub-fund has been set up. Any fee changes and the impact this will have on the forecasted spend against the budget will be communicated with Members throughout the year.

- The performance fees have been reduced by £1.5m, this is to bring them more in line with the 2018/19 actual fees which reflect a period of lower performance and the new performance fee structure. As with the management fees, this budget does not reflect the impact of transitioning funds to the pool.

- The Pensions Administration Budget has been increased by £130k to reflect the new Pay Review and also changes identified as part of the staffing review that will take place during 2019/20.
- The Pensioner Data Reconciliation exercise has been included as a new one off budget of £100k for 2019/20.
- The other Administration budget line has been increased by £50k on a one-off basis to include the NYPF Website review planned for 2019/20 within the draft NYPF Business Plan.
- The Actuarial fee budget has been increased by £40k for 2019/20 to include the expected 2019 Triennial Valuation costs.
- The Finance budget has been inflated by £20k to reflect the new pay review

5.3 **It is important to note that transition costs have not been included in this budget**. These are expected to be significant costs but they are very difficult to predict until the amount to be transitioned is known and a transition plan is produced at the start of each transition. As each transition progresses **Members will be kept informed of the planned and actual transition costs**. During 2019/20 it is expected that UK equities, global equities, fixed income and some alternative sub-funds will be available for the Fund to invest in.

5.4 Members are asked to approve the draft budget for 2019/20. Once approved, this budget will remain unchanged except for any necessary budget adjustments that are approved by PFC in future meetings.

6.0 **RECOMMENDATIONS**

6.1 Members to approve the draft 2019/20 NYPF Business Plan

6.2 Members to approve the Draft 2019/20 Budget

6.3 Members to note the contents of the report.

GARY FIELDING
Treasurer to North Yorkshire Pension Fund
NYCC
County Hall
Northallerton

11 February 2019

Appendix 1

North Yorkshire Pension Fund – 2018/2019 Budget – Cost of Running the Pension Fund

	Expenditure to 31.12.2018	Revised Budget 2018/2019 £k	Forecast 2018/2019 £k	Variance £k	Comments
EXPENDITURE					
Admin Expenses					
Finance and Central Services inc ESS	300	500	500	0	
Pensions Administration Team	633	850	850	0	
GMP Reconciliation programme	79	100	100	0	
Other Admin Expenses	157	210	210	0	Main cost is £140K Heywood Ltd (Altair)
	1169	**1,660**	**1,660**	**0**	
Oversight and Governance					
Actuarial Fees	12	30	30	0	18/19 Gross budget £110k, £80k recharged to employers
Custodian Fees	75	130	130	0	
Consultants Fees	74	140	140	0	
Pooling Implementation Costs	269	269	269	0	
Pooling Operational Charge	503	503	406	-97	there is expected to be an underspend in the year against the Operating Charge, some of this will be carried forward to 2019/20
Other O & G Expenses	49	110	110	0	
	982	**1,182**	**1,085**	**-97**	
Investment Fees					
Investment Management Base Fee invoiced	3,431	4,800	5,000	200	
Performance Fees invoiced	2,436	5,000	2,436	-2,564	
Investment base fees deducted from Fund	8,200	10,000	11,000	1,000	
	14,067	**19,800**	**18,436**	**-1,364**	
TOTAL	**16,217**	**22,642**	**21,181**	**-1,461**	

Appendix 2

North Yorkshire Pension Fund – Three year cash flow forecast

	Cash-flow 2018/2019 £k	Cash-flow 2019/2020 £k	Cash-flow 2020/2021 £k	Comments
EXPENDITURE				
Benefits				
Pensions	86,300	90,130	94,130	
Lump Sums	24,300	24,300	24,300	
	110,600	**114,430**	**118,430**	
Payments to and on account of leavers				
Transfers out	9,500	9,000	9,000	
Refunds to leavers	500	500	500	
	10,000	**9,500**	**9,500**	
TOTAL EXPENDITURE	**120,600**	**123,930**	**127,930**	
INCOME				
Employer and Employee Contributions	111,000	113,250	128,545	
Transfers IN (from other schemes)	12,500	12,000	12,000	
Investment Income	1,320	1,320	1,320	Hermes income and Barclays interest income
TOTAL INCOME	**124,820**	**126,570**	**141,865**	
SURPLUS/ (DEFICIT)	**4,220**	**2,640**	**13,935**	
Add cost of administering the pension fund	**21,181**	**22,640**	**22,640**	
Less Management Fees charged direct to the fund	**(11,000)**	**(11,700)**	**(11,700)**	
NET SURPLUS/ (DEFICIT)	**(5,961)**	**(8,300)**	**2,995**	The 20/21cashflow includes 1 year past service deficit

North Yorkshire Pension Fund – 2019/20 Budget – Cost of Running the Pension Fund

	Budget 2018/2019 £k	Budget 2019/2020 £k	Variance £k
EXPENDITURE			
Admin Expenses			
Finance and Central Services inc ESS	500	520	20
Pensions Administration Team	850	980	130
GMP Reconciliation programme	100	0	-100
Pension Data Reconciliation	0	100	100
Other Admin Expenses	210	260	50
	1,660	**1,860**	**200**
Oversight and Governance			
Actuarial Fees	30	70	40
Custodian Fees	130	130	0
Consultants Fees	140	150	10
Pooling Implementation Costs	269	0	-269
Pooling Project Costs	0	140	140
Pooling Operational Charge	503	980	477
Other O & G Expenses	110	110	0
	1,182	**1,580**	**398**
Investment Fees			
Investment Management Base Fee invoiced	4,800	4,000	-800
Performance Fees invoiced	5,000	3,500	-1,500
Investment base fees deducted from Fund	10,000	11,700	1,700
	19,800	**19,200**	**-600**
TOTAL	**22,642**	**22,640**	**(2)**

Appendix 4

NYPF 2018/2021 Business Plan Update

Action	Resource	Timescale	Progress Update Jan 2019
Effective and efficient member administration Website review Administration software review Business process re-engineering	Head of Pensions Administration	2018/2020	In progress Work underway with requirement gathering and process mapping. Software contract extended for 1 year.
Improve Data Quality GMP Reconciliation Pensioner Reconciliation Employer interaction Create Data Improvement plan	Head of Pensions Administration	2018/2019	In progress GMP reconciliation continues. Pensioner reconciliation on hold until GMP project finished.
People Review of team structure Training Cross skilling Resilience Succession planning	Head of Pensions Administration	2018/2019	In progress Structure review being finalised which will address the issues highlighted. On target to be live in 2019
Excellent Customer Service Improved employer engagement Partnership working with employers	Head of Pensions Administration/ Senior Accountant	2019/2020	In progress Structure review being finalised which will address the issues highlighted. On target to be live in 2019
Effective Investment Strategy Review of Investment Strategy Fund Manager performance reviews	Pension Fund Committee	2018/2019	The Fund has already undertaken some de-risking during 2018/19 due to the funding level. As part of the 2019 Triennial Valuation the Fund will undertake a full Investment Strategy review in 2019/20.
Pooling Transition plan Effective management of transition NYPF representation	Pension Fund Committee/ Treasurer/ Senior Accountant	2018/2021	Work is ongoing on setting up the new sub-funds. Workshops are being held to allow each partner fund to input into the design of the sub-funds. The first sub-fund that NYPF will invest in is UK Equities Alpha, work on due diligence and transition management is ongoing.

Appendix 4

NYPF 2018/2021 Business Plan Update
Cont'd

Action	Resource	Timescale	Progress Update Jan 2019
Monitor Income Monitor monthly employer and member pension contributions Effective financial management	Senior Accountant	2018/2019	This is an ongoing target of the Fund. Work is in progress on addressing late payments and paperwork, charging will come into force in April 2019.
Effective Fund Governance Committee and Board skills evaluation Committee and Board training plan	Pension Fund Committee	2018/2019	The skills evaluation frameworks have been approved and work is ongoing to collect responses from Members and Board members. Following data gathering on skills a training plan will be developed to address any gaps.
Triennial Valuation Agree assumptions Review of scheme factors Data cleansing Employer engagement Review of strength of covenant	Head of Pensions Administration Senior Accountant	2018/2020	In progress Initial data extract provided and data cleansing underway. Assumptions and requirements being agreed.

Appendix 5

North Yorkshire Pension Fund

Business Plan

2019/20 – 2021/22

If you require this information in an alternative language or another format such as large type, audio cassette or Braille, please contact the Pensions Help & Information Line on 01609 536335

Contents

1. Background

North Yorkshire County Council (NYCC) is the statutory administering authority for the North Yorkshire Pension Fund (NYPF), which is part of the Local Government Pension Scheme (LGPS). All aspects of the Fund's management and administration, including investment matters, are overseen by the Pension Fund Committee (PFC), which is a committee of the NYCC.

The purpose of the Fund is to provide retirement benefits specified by the LGPS regulations for staff working for local authority employers, and other employers admitted by agreement, in the North Yorkshire area.

The day to day running of the NYPF is delegated to the Treasurer who is the Corporate Director – Strategic Resources of the NYCC and is responsible for implementing the decisions made by the PFC.

Supporting him is a team of staff split into two sections. The Pension Administration team administers all aspects of member records, pension benefits etc. and the Integrated Finance team looks after the accounting and management information requirements of the Fund. All aspects of the day to day management of investment funds are undertaken by external fund managers.

Current structure:

Treasurer

Integrated Finance Team	Pension Administration Team
4.3 Full time equivalent staff	28.75 Full time equivalent staff

The Scheme is governed by the Public Service Pensions Act 2013 and is administered in accordance with the following secondary legislation:

- the LGPS Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2016
- the LGPS (Amendment) Regulations 2018

The main systems utilised in the running of the NYPF are Oracle, a third party finance and accounting system provided by the Oracle Corporation, and Altair a third party pensions administration system provided by Aquila Heywood.

This business plan should be read in conjunction with the administration strategy and the investment strategy statement, these being the key documents that set out the principles of the running of the NYPF.

These can be found on our website at https://www.nypf.org.uk/nypf/policiesandstrategies.shtml

2. Introduction

As part of its programme of improving the standards of governance across all pension schemes the Pensions Regulator has recommended that each scheme should have a business plan in place which sets out a clear purpose and strategy. This plan should be used to manage the scheme effectively and enable members to get good outcomes. Having a business plan will enable the PFC to plan ahead and improve their ability to comply with legal requirements.

This Plan will be reviewed annually and objectives and key actions revised accordingly. Progress reviews will be undertaken every six months and progress reported to the PFC.

3. Vision

To ensure sufficient assets are available to pay the right pension benefits at the right time.

4. Objectives

The objectives set out below will enable the Fund to achieve its long term vision to ensure sufficient assets are available to pay the right pension benefits at the right time.

We will:

1. Maximise investment returns
2. Manage Scheme funding
3. Provide excellent customer service
4. Ensure effective Fund governance

5. Key Actions

The following key actions have been identified:

Action	Resource	Timescale
Effective and efficient member administration Website review Administration software review Business process re-engineering	Head of Pensions Administration	 Q4 2019/20 Q1 2020/21 Q4 2019/20
Improve Data Quality GMP Reconciliation Pensioner Reconciliation Employer interaction Create Data Improvement plan	Head of Pensions Administration	 Q1 2019/20 Q4 2019/20 Q2 2019/20 Q1 2019/20
People Review of team structure Training Cross skilling Resilience Succession planning	Head of Pensions Administration	 Q1 2019/20 Q4 2019/20 Q4 2019/20 Q4 2019/20 Q4 2019/20
Excellent Customer Service Improved employer engagement Partnership working with employers Pension Fund rebrand	Head of Pensions Administration/ Senior Accountant	 Q4 2021/22 Q4 2021/22 Q4 2019/20
Effective Investment Strategy Review of Investment Strategy	Pension Fund Committee	 Q4 2019/20
Pooling Effective management of transition NYPF representation	Pension Fund Committee/ Treasurer/ Senior Accountant	 Q4 2021/22 Q4 2021/22
Monitor Income Introduce monthly monitoring of employer and member pension contributions Effective financial management	Senior Accountant	 Q1 2019/20 Q4 2021/22
Effective Fund Governance Committee and Board skills evaluation Committee and Board training plan	Pension Fund Committee	 Q1 2019/20 Q2 2019/20

Action	Resource	Timescale
Triennial Valuation Agree assumptions Review of scheme factors Data cleansing Employer engagement Review of strength of covenant	Head of Pensions Administration Senior Accountant	 Q1 2019/20 Q1 2019/20 Q1 2019/20 Q2 2019/20 Q2 2019/20

The following resources have been identified as key to ensuring delivery of the objectives identified:

a. Systems and technology which are fit for purpose
b. People
    i. Focussed on customers' needs
    ii. Highly skilled and knowledgeable
c. The right information and data
    i. Financial
    ii. Performance
    iii. Benchmarking
    iv. Membership data
d. Third party service providers
    i. Actuary
    ii. Legal Advisers
    iii. Custodian
    iv. Fund Managers
    v. Investment Consultants
    vi. Software provider
    vii. Borders to Coast Pensions Partnership (BCPP)

These actions are recorded and scheduled in more detail in the NYPF scheduler which is used by officers to ensure the appropriate actions are taken to deliver the business plan.

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

21 FEBRUARY 2019

PERFORMANCE OF THE FUND'S PORTFOLIO FOR THE QUARTER ENDING 31 DECEMBER 2018

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 2018.

2.0 PERFORMANCE REPORT

2.1 The Fund Analysis & Performance Report produced by BNY Mellon Asset Servicing (MAS) provides a performance analysis of the North Yorkshire Pension Fund for the quarter ending 31 December 2018.

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, -7.6% was below the customised benchmark for the Fund, -6.4%, by -1.2%.

3.2 The 12 month absolute rolling return was -2.1%, 0.9% above the customised benchmark of -3.0%

3.3 Absolute and relative returns over the rolling years to each of the last four quarter ends were as follows:

Quarter End	Absolute %	Relative %
31 December 2018	-2.1	-3.0
30 September 2018	+10.5	+2.8
30 June 2018	+12.0	+5.1
31 March 2018	+8.4	+5.0

3.4 The performance of the various managers against their benchmarks for the quarter ended 31 December 2018 is detailed 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 1 Fund Manager Performance over the three years to 31 December 2018 in absolute percentage terms from a starting point of "100"

Appendix 2 Solvency graph – this shows the key Asset, Liability and Deficit figures in a simple graphical format

Appendix 3 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 -7.6% in the quarter decreased the invested value of the Fund by £275.4m to £3,306m. This quarter, 5 managers/funds outperformed their respective benchmarks and 13 underperformed against their respective benchmarks. At the end of the December 2018 quarter the value of the Fund was £69m below the value at the end of December 2017, a decrease of -2.1%

4.2 The table below shows the performance of the Fund's investments against the relevant benchmarks as at 31 December 2018. Performance targets set by the Fund are measured on a rolling 3 year basis and shown in the '3 Years' section of the table.

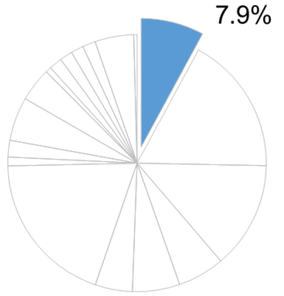
Manager	Quarter		One Year		3 Years		
	Fund (%)	B'mk (%)	Fund (%)	B'mk (%)	Fund (%)	B'mk (%)	Target (%)
Overseas Equities							
Fidelity	-11.5	-10.3	-6.7	-5.7	10.2	11.2	13.2
Global Equities							
Baillie Gifford GA	-12.4	-10.5	-3.8	-3.4	14.4	12.5	14.5
Baillie Gifford LTGG	-14.1	-10.5	5.1	-3.4	19.6	12.5	15.5
Dodge & Cox	-10.9	-10.6	-7.8	-3.3	12.6	12.5	12.5
Veritas	-9.9	-10.6	-0.1	-3.3	12.5	12.5	8.0 - 12.0
UK Equities							
Standard Life	-16.3	-12.5	-20.4	-12.8	4.3	4.6	7.6
Fixed Income							
M&G	0.5	2.0	-2.0	-1.3	9.9	10.0	10.5
Property							
Hermes	1.1	1.3	8.4	7.4	8.7	7.2	7.7
LGIM Property	0.1	0.9	3.9	6.5	5.1	6.4	6.4
Threadneedle	1.1	0.9	6.3	6.5	6.7	6.4	7.4 - 7.9
Diversified Growth							
Newton Diversified	-1.7	0.2	-0.1	0.6	2.1	0.4	4.5
Standard Life Diversified	-1.2	0.2	-4.2	0.6	-1.4	0.4	5.5
Private Debt							
Bluebay	3.5	1.7	7.4	7.7			
Permira Credit	0.8	1.5	8.8	6.0			
Insurance Linked Securities							
Leadenhall DI	-1.6	0.2					
Leadenhall NA	-7.7	0.2					
Leadenhall RE	0.9	0.2					
Cash							
Treasury Investment	0.2	0.2					

4.3 In the following section, the Fund's investments are analysed under the relevant asset heading with diagrams showing the size of the investment in relation to the total assets of the Fund as at 31 December 2018 and the quarterly increase or decrease in value of each investment up until 31 December 2018.

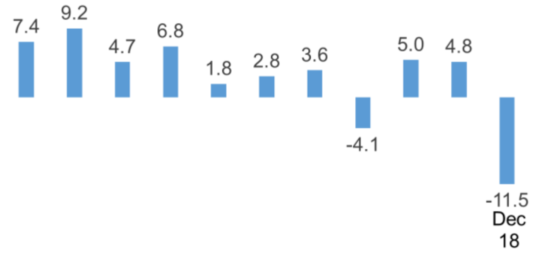
4.4 **Overseas Equities**

a) **Fidelity**

Fund Share



Quarterly Fund Value Movements (%)

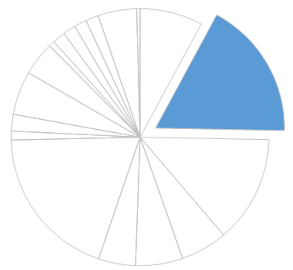


Fidelity returned -1.2% for the quarter against the benchmark return of -10.3%. Relative performance over the year was -1.0% against the benchmark of -5.7%. Over the longer term the Fund matched the benchmark return of +8.8% over 5 years.

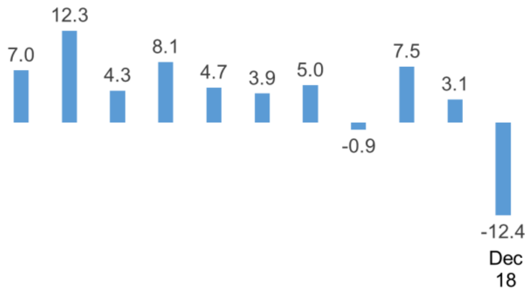
4.5 **Global Equities**

a) Baillie Gifford

Fund Share



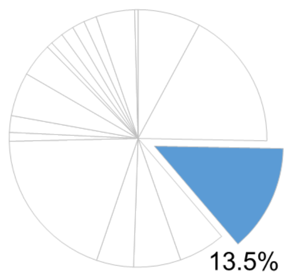
Quarterly Fund Value Movements (%)



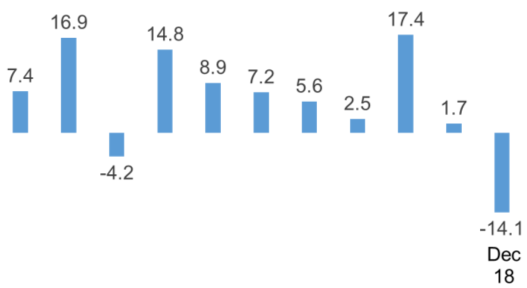
The Global Alpha fund returned -1.9% for the quarter against the benchmark return of -10.5%. Relative performance over the year was -0.4% against the benchmark of -3.4%. Relative return since inception was +2.3% against the benchmark of +8.5%.

b) Baillie Gifford LTGG

Fund Share



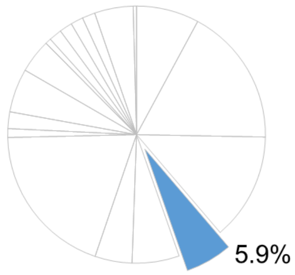
Quarterly Fund Value Movements (%)



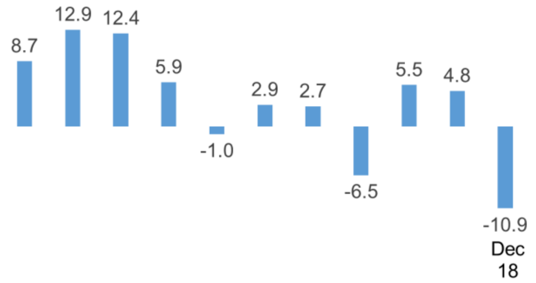
The LTGG Fund had a relative return of -3.6% for the quarter against a benchmark return of -10.5%. Relative performance over the year was +8.5% against the benchmark of -3.4%. Since inception the relative performance was +5.4% against the benchmark of +8.5%.

c) Dodge & Cox

Fund Share



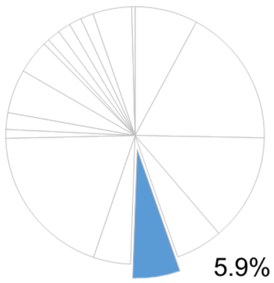
Quarterly Fund Value Movements (%)



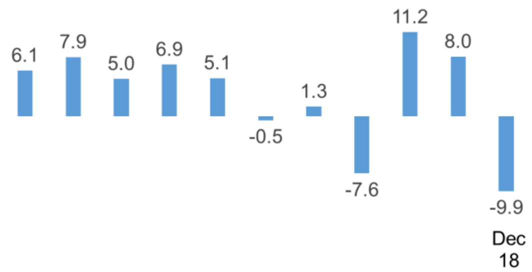
Dodge and Cox returned -0.3% for the quarter against a benchmark return of -10.6% in relative terms. Relative performance over the year was -4.5% against the benchmark of -3.3% and over 3 years +0.1% against a benchmark of +12.5%.

a) Veritas

Fund Share



Quarterly Fund Value Movements (%)

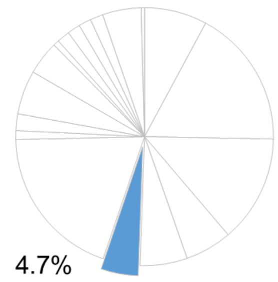


Veritas had a relative return of +0.7% for the quarter against a benchmark return of -10.6%. Relative performance over the year was +3.2% against the benchmark of -3.3%. Over 3 years the fund matched the benchmark of +12.5%.

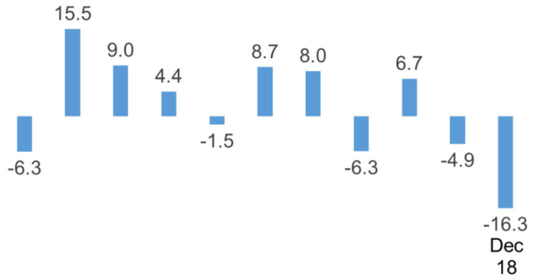
4.7 UK Equities

a) Standard Life

Fund Share



Quarterly Fund Value Movements (%)

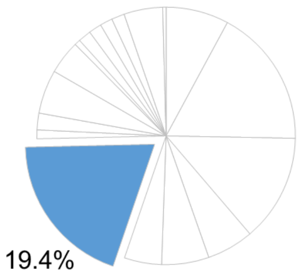


The Standard Life equities fund returned -3.8% for the quarter against a benchmark return of -12.5%. Relative performance over the year was -7.6% against the benchmark of -12.8%. Since inception the relative return was -1.3% against a benchmark of +7.5%.

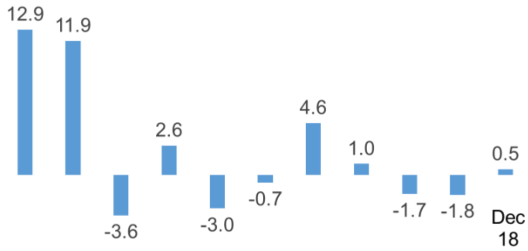
4.8 Fixed Income

a) **M&G**

Fund Share



Quarterly Fund Value Movements (%)

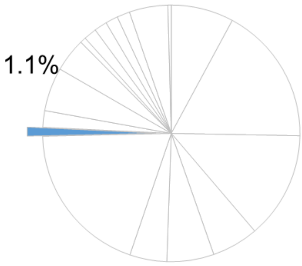


M&G returned -1.5% for the quarter against a benchmark return of 2.0%. Relative performance over the year was -0.7% against the benchmark of -1.3% and +0.5% against a benchmark of +8.2% since inception.

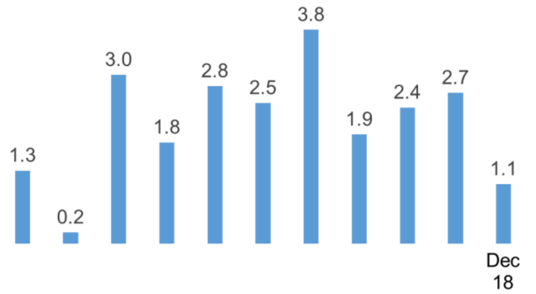
4.9 Property

a) Hermes

Fund Share



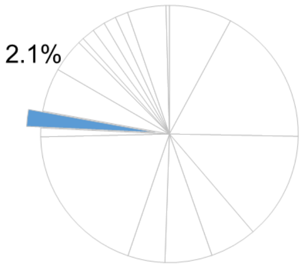
Quarterly Fund Value Movements (%)



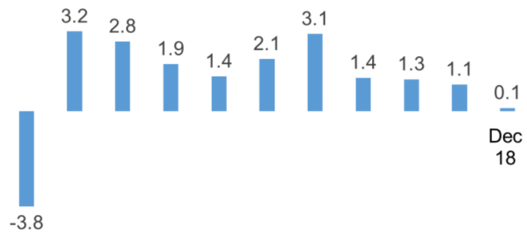
Hermes have returned +0.2% for the quarter against a benchmark return of +1.3%. Relative performance over the year was +1.0% against the benchmark of +7.4%. Over 5 years the relative performance was +3.7% against a benchmark of +7.2%.

b) Legal & General

Fund Share



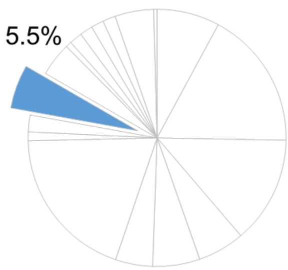
Quarterly Fund Value Movements (%)



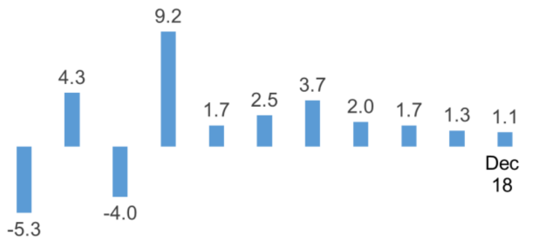
LGIM returned -0.8% for the quarter against a benchmark return of +0.9%. Relative performance over the year was -2.6% against the benchmark of +6.5%. Over 5 years the relative performance was +0.5% against a benchmark of +7.6%.

c) Threadneedle

Fund Share



Quarterly Fund Value Movements (%)

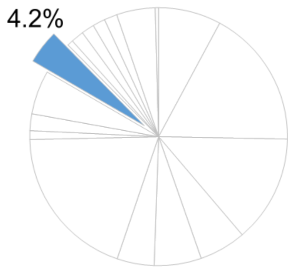


Threadneedle returned +0.2% for the quarter against a benchmark return of +0.9%. Relative performance over the year was -0.2% against the benchmark of +6.5%. Over 5 years the relative performance was +2.7% against a benchmark of +7.6%.

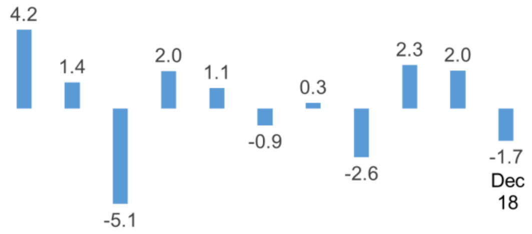
4.10 **Diversified Growth Funds**

a) **Newton Investments**

Fund Share



Quarterly Fund Value Movements (%)



Newton returned -1.9% for the quarter against a benchmark return of +0.2%. Relative performance over the year was -0.7% against the benchmark of +0.6%. Over 5 years the relative performance was +1.7% against a benchmark of +0.5%.

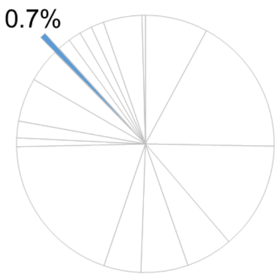
b) **Standard Life GARS Fund**

In the quarter NYPF fully disinvested from the GARS Fund, as approved by the Committee in the November meeting following advice from the Fund's consultants.

4.11 **Private Debt**

a) **Bluebay**

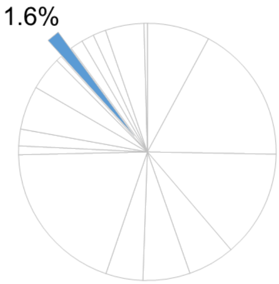
Fund Share



Bluebay returned +1.8% for the quarter against a benchmark return of +1.7%. Relative performance over the year was -0.3% against the benchmark of +7.7%.

b) **Permira**

Fund Share

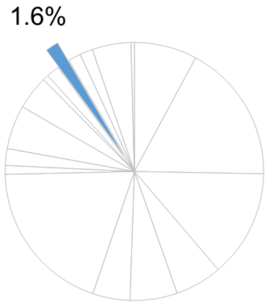


Permira returned -0.7% for the quarter against a benchmark return of +1.5%. Relative performance over the year was +2.8% against the benchmark of +6.0%.

4.12 Insurance Linked Securities

a) **Leadenhall Diversified**

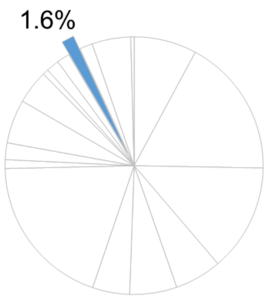
Fund Share



The Leadenhall Diversified Fund returned -1.8% for the quarter against a benchmark return of +0.2% in relative terms.

b) **Leadenhall Natcat Focus**

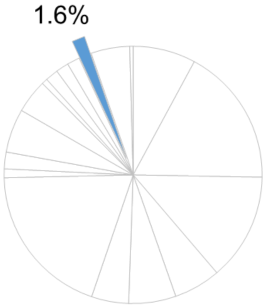
Fund Share



The Leadenhall Nat Cat Focus Fund returned -7.9% for the quarter against a benchmark return of +0.2% in relative terms. This Fund experienced losses over the quarter, exposures to Hurricane Michael and the Californian wildfires were the main reasons for this loss. As this Fund is the highest in risk of the three Leadenhall Funds that NYPF are invested in, this Fund saw the highest losses.

c) **Leadenhall Remote**

Fund Share

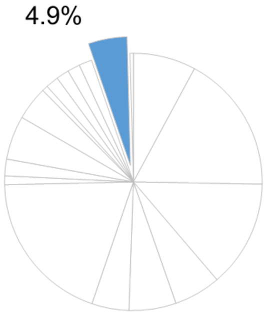


The Leadenhall Remote Fund returned +0.7% for the quarter against a benchmark return of +0.2% in relative terms.

4.13 **Cash Investment**

a) **North Yorkshire County Council**

Fund Share



In the quarter the Fund invested in the NYCC Treasury Management cash investment (as detailed in paragraph 7.3 below). This fund achieved the benchmark return of +0.2% in the quarter.

5.0 **RISK INDICATORS**

5.1 The Report includes three long-term risk indicators.

5.2 The Fund's annualised **Standard Deviation,** which is a reflection of volatility, was 7.3% for the rolling three year period to 31 December 2018 +1.0% 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 2018 was +0.1% above benchmark at 1.4%.

5.4 The **Tracking Error** figure reflects how closely a fund manager's actual return follows their respective benchmark. As at December 2018 the figure was 2.9%.

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 2018 the ratio for the Fund was 0.6%.

6.0 **SOLVENCY**

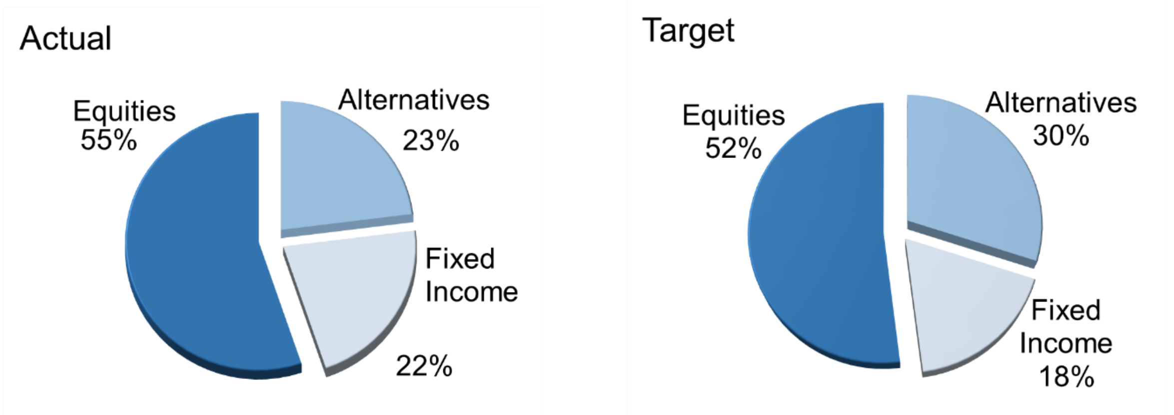
6.1 The **solvency position** is presented in **Appendices 2 and 3**. As at 31 December 2018 the estimated solvency was 105%. This is a 15 percentage point increase from the solvency figure as at 31 March 2016, calculated by the Actuary during the 2016 Valuation process.

6.2 The funding level has dropped in the quarter by 10 percentage points. This is mainly due to the negative performance of the Fund, particularly in equities, during the quarter.

6.3 The solvency figure does not yet reflect any changes to the investment strategy as part of the recent investment strategy review. Changes in the investment strategy will have an impact on the discount rate used to calculate the funding level as both the volatility and return are taken into account. These anticipated changes in the investment strategy will be reflected in the funding level in a future quarter. The assumptions used for the funding level are from the 2016 Triennial Valuation. These assumptions will be updated as the Fund progresses through the 2019 Triennial Valuation.

7.0 **REBALANCING**

7.1 Asset Allocations as at 31 December 2018



7.2 There is currently an underweight position in alternatives; this is mainly due to the disinvestment from the Standard Life GARS Fund in the quarter which was around 5.5% of the Fund. In the short term this disinvestment has been split equally between equities and fixed income (described in 7.3 below) which explains the overweight positions that the Fund has in both of those asset classes.

7.3 In the quarter to 31 December 2018, the following rebalancing took place:

- Permira made their 10th capital call totalling £4.7m

- Bluebay made their 8th capital call totalling £4.1m
- £167m was disinvested from the Standard Life GARS Fund and invested with M&G (£77.5m) Dodge & Cox (£48.8m) and Veritas (£33.7m).

As part of the investment strategy review :-

- £60m was disinvested from Fidelity, £60m from Baillie Gifford Global Alpha and £40m from Baillie Gifford LTGG and invested with the North Yorkshire County Council Treasury Management cash investment (£160m) in the short term until an investment is made in property debt in line with the investment strategy.

8.0 PROXY VOTING

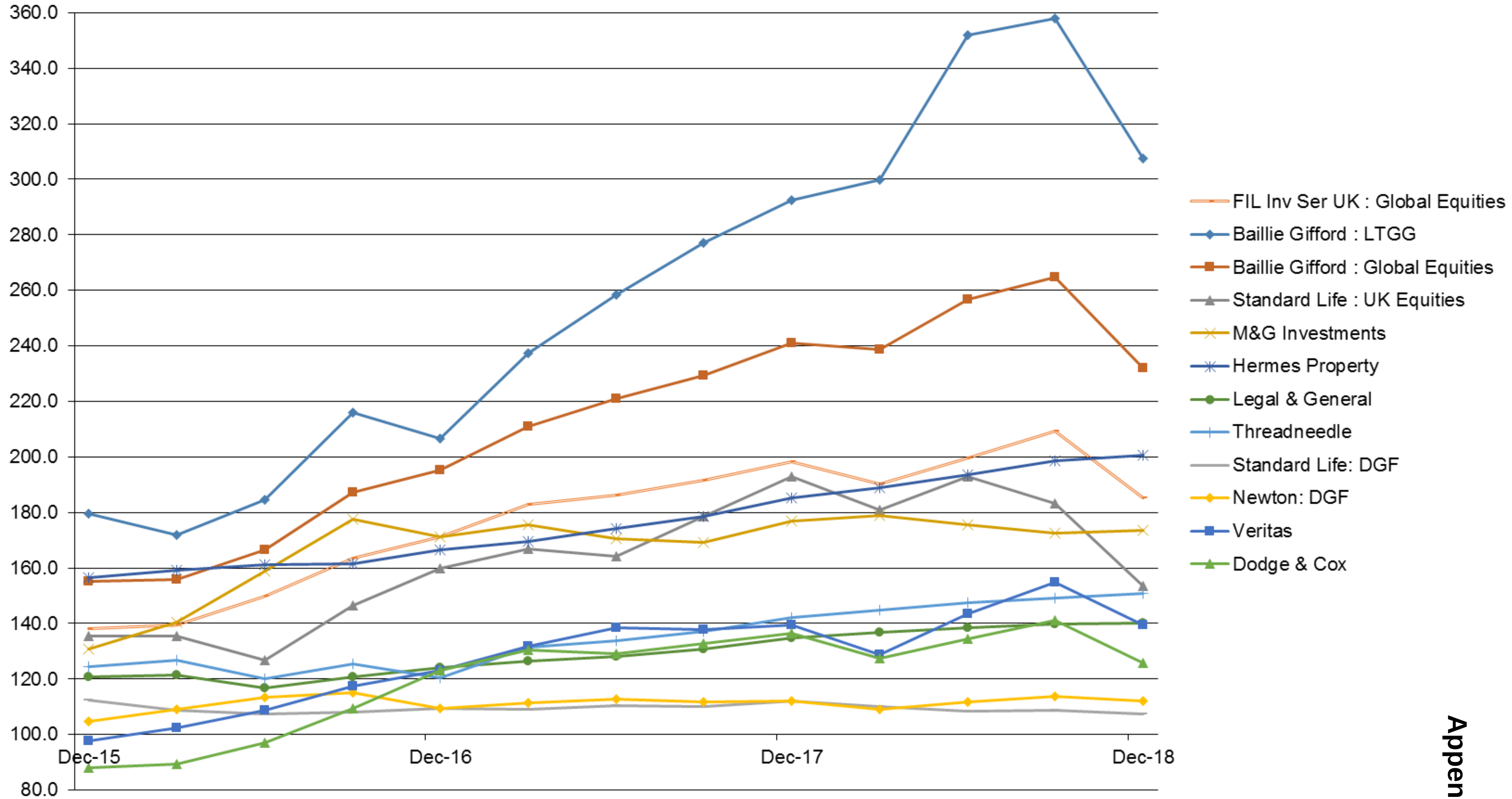
8.1 The report from PIRC is available on request summarising the proxy voting activity in the period September 2018 to December 2018. This report covers the votes cast on behalf of NYPF at all relevant company AGMs in the period and includes an analysis of voting recommendations at selected meetings 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 2018.

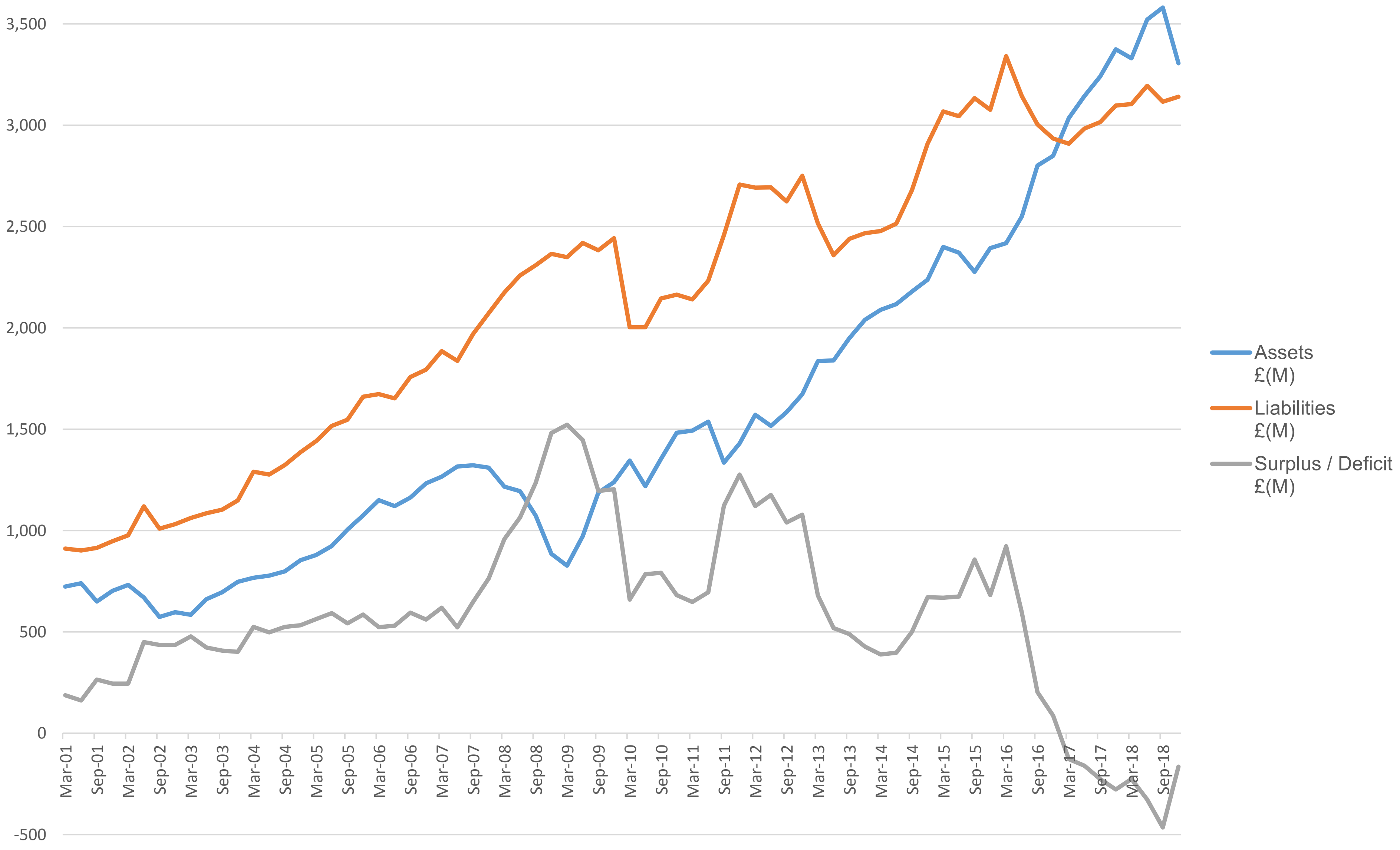
GARY FIELDING
Treasurer to North Yorkshire Pension Fund
NYCC
County Hall
Northallerton
8 February 2019

Investment Manager Performance - Cumulative Absolute Performance 3 years to December 2018

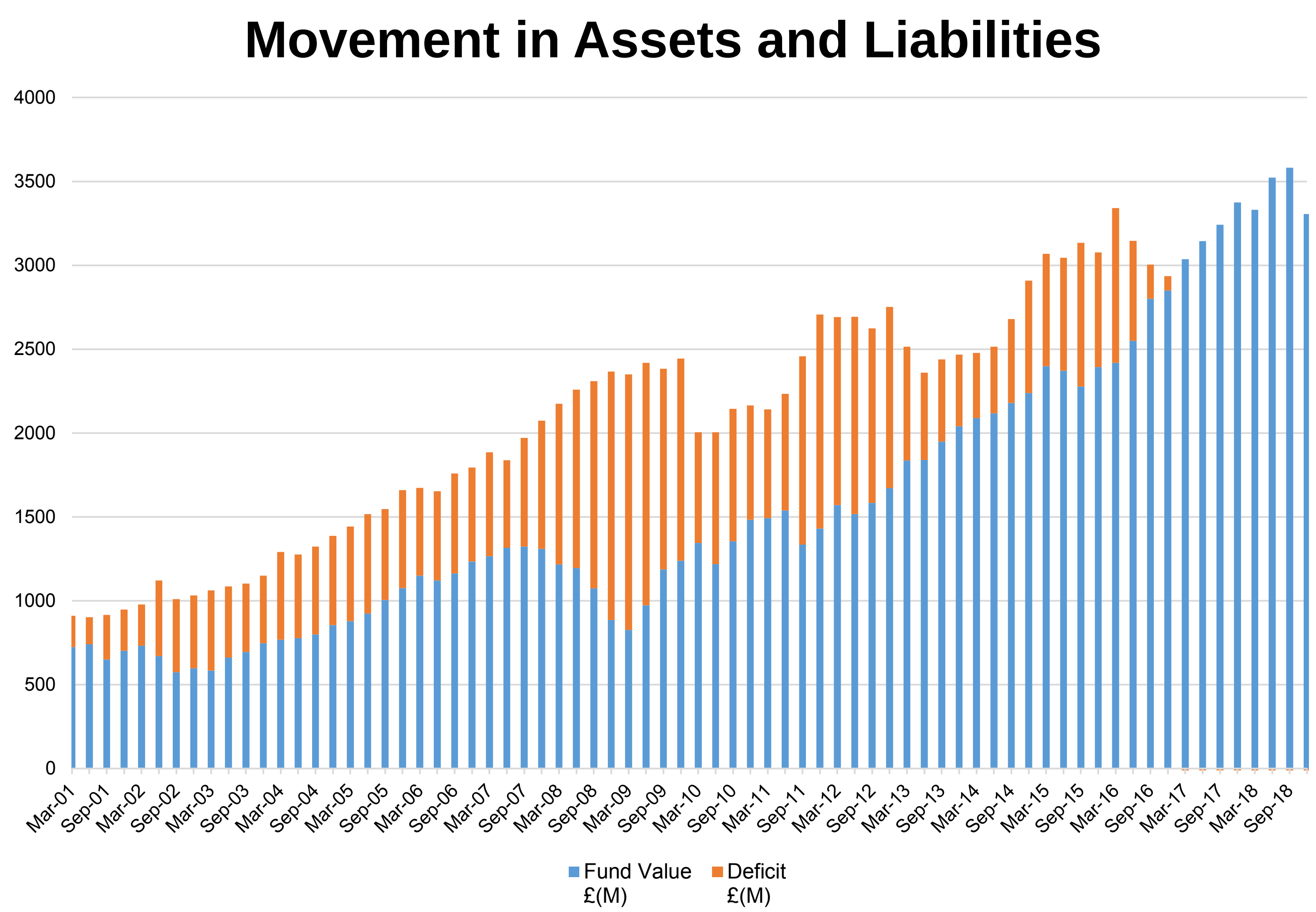


Appendix 1

North Yorkshire Pension Fund - Assets, Liabilities and Deficit



Appendix 2


Movement in Assets and Liabilities
4000
3500
3000
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1000
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Mar-18
Sep-18
Fund Value £(M)
Deficit £(M)

Appendix 3

Date	Solvency	Deficit £(M)	Fund Value £(M)	FTSE 100
30 June 2001	82%	162	740	5,643
30 September 2001	71%	265	650	4,903
31 December 2001	74%	245	702	5,217
31 March 2002	75%	245	732	5,272
30 June 2002	60%	450	670	4,656
30 September 2002	56%	435	574	3,722
31 December 2002	58%	435	597	3,940
31 March 2003	55%	478	584	3,613
30 June 2003	61%	423	662	4,031
30 September 2003	63%	408	695	4,091
31 December 2003	65%	402	747	4,477
31 March 2004	59%	524	767	4,386
30 June 2004	61%	498	778	4,464
30 September 2004	60%	524	799	4,571
31 December 2004	62%	533	854	4,814
31 March 2005	61%	563	879	4,894
30 June 2005	61%	592	924	5,113
30 September 2005	65%	542	1005	5,478
31 December 2005	65%	585	1075	5,619
31 March 2006	69%	523	1150	5,965
30 June 2006	68%	531	1121	5,833
30 September 2006	66%	595	1163	5,961
31 December 2006	69%	561	1233	6,221
31 March 2007	67%	619	1266	6,308
30 June 2007	72%	522	1316	6,608
30 September 2007	67%	648	1322	6,467
31 December 2007	63%	763	1310	6,457
31 March 2008	56%	958	1217	5,702
30 June 2008	53%	1064	1195	5,625
30 September 2008	47%	1235	1074	4,902
31 December 2008	37%	1481	885	4,434
31 March 2009	35%	1522	827	3,926
30 June 2009	40%	1447	972	4,249
30 September 2009	50%	1196	1187	5,134
31 December 2009	51%	1204	1239	5,413
31 March 2010	67%	659	1345	5,680
30 June 2010	61%	785	1219	4,917
30 September 2010	63%	791	1354	5,549
31 December 2010	69%	681	1483	5,900
31 March 2011	70%	648	1493	5,909
30 June 2011	69%	695	1538	5,946
30 September 2011	54%	1123	1335	5,129
31 December 2011	53%	1277	1430	5,572
31 March 2012	58%	1121	1571	5,768
30 June 2012	56%	1176	1517	5,571
30 September 2012	60%	1040	1584	5,742
31 December 2012	61%	1079	1672	5,898
31 March 2013	73%	679	1836	6,412
30 June 2013	78%	519	1840	6,215
30 September 2013	80%	490	1949	6,462
31 December 2013	83%	427	2040	6,749
31 March 2014	84%	389	2089	6,598
30 June 2014	84%	397	2117	6,744
30 September 2014	81%	500	2179	6,623
31 December 2014	77%	671	2238	6,566
31 March 2015	78%	669	2399	6,773
30 June 2015	78%	674	2371	6,521
30 September 2015	73%	857	2277	6,062
31 December 2015	78%	682	2394	6,242
31 March 2016	72%	923	2418	6,175
30 June 2016	81%	596	2549	6,504
30 September 2016	93%	203	2801	6,899
31 December 2016	97%	86	2849	7,143
31 March 2017	104%	-127.2	3036	7,323
30 June 2017	105%	-160.2	3144	7,313
30 September 2017	108%	-225.6	3241	7,373
31 December 2017	109%	-277.7	3375	7,688
31 March 2018	107%	-226.2	3331	7,057
30 June 2018	110%	-327	3522	7,637
30 September 2018	115%	-464.6	3581	7,510
31 December 2018	105%	-164.8	3306	6,728

* Triennial valuation

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

21 FEBRUARY 2019

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 The last Joint Committee (JC) meeting was held on 21 November 2018. An update from this meeting was provided in the November PFC meeting. There have been no further JC meetings since the last PFC meeting.

2.2 The key focus remains on the setting up of sub-funds and transitioning of funds into the pool. The transition of funds into the Global Equities and UK equities sub-funds is covered in detail within the Investment Strategy item on the agenda.

2.3 A verbal update on BCPP developments will be provided at the meeting by the Chairman and Treasurer.

3.0 RESPONSIBLE INVESTMENT

3.1 As part of the initial pooling submission in July 2016, the Government required each Pool to have an approach to responsible investment (RI) with a commitment that a written RI policy would be in place at Pool level by 1 April 2018. BCPP's Responsible Investment Policy and Corporate Governance & Voting Guidelines were developed in 2017 in conjunction with the twelve Partner Funds to satisfy this. These policies were approved in the November 2017 Committee meeting.

3.2 Both policies are reviewed by BCPP annually in conjunction with Partner Funds. The latest revisions of these policies were approved by the Joint Committee at their meeting on 21 November 2018. The revised policies do not contain any changes to the underlying principles. They have been updated following feedback from BCPP's voting and engagement partner, Robeco, to enable clearer implementation of the policies. They also now reflect the changes required to facilitate BCPP becoming a signatory to the United Nations-supported Principles for Responsible Investment (UNPRI).

3.3 The latest Policies are attached as **Appendix 1 & 2**. Members are asked to review the attached policies and consider the adoption of these principles into NYPF’s own policies in line with the industry best practice.

4.0 NEXT STEPS

4.1 The next Joint Committee meeting is to be held on 11 March 2019.

5.0 RECOMMENDATION

5.1 Members to note the content of the report and verbal updates provided in the meeting.

5.2 Members to consider the adoption of BCPP’S Responsible Investment principles into NYPF’S own policies.

GARY FIELDING
Treasurer, North Yorkshire Pension Fund
NYCC
11 February 2018

Responsible Investment Policy

Border to Coast Pensions Partnership

November 2018

Responsible Investment Policy

This Responsible Investment Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to our Partner Funds in their delegation of responsible investment (RI) and stewardship responsibilities.

1. Introduction

Border to Coast Pensions Partnership Ltd is an FCA-authorised investment fund manager (AIFM). It operates investment funds for its twelve shareholders which are Local Government Pension Scheme funds (Partner Funds). The purpose is to make a difference to the investment outcomes for our Partner Funds through pooling to create a stronger voice; working in partnership to deliver cost effective, innovative, and responsible investment now and into the future; thereby enabling great, sustainable performance.

Border to Coast believes that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long term returns. Well-managed companies with strong governance are more likely to be successful long-term investments.

Border to Coast is an active owner and steward of its investments, both internally and externally managed, across all asset classes. The commitment to responsible investment is communicated in the Border to Coast UK Stewardship Code compliance statement. As a long-term investor and representative of asset owners, we will therefore, hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We will incorporate such factors into our investment analysis and decision making, enabling long-term sustainable investment performance for our Partner Funds. As a shareowner, Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation.

The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed this RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds.

2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process and practicing investment stewardship, to better manage risk and generate sustainable, long-term returns. Financial and ESG analysis together identify broader risks leading to better informed investment decisions and can improve performance as well as risk-adjusted returns.

Investment stewardship includes active ownership, using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance.

3. Governance and Implementation

Border to Coast takes a holistic approach to sustainability and as such it is at the core of our corporate and investment thinking. Sustainability, which includes RI, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate the commitment to RI, which include the Responsible Investment Policy and Corporate Governance & Voting Guidelines. Border to Coast has a dedicated staff resource for managing RI within the organisational structure.

The RI Policy is jointly owned and created after collaboration and engagement with our twelve Partner Funds. The Chief Investment Officer (CIO) is accountable for implementation of the policy. The policy is monitored with regular reports to the CIO, Investment Committee, Board, Joint Committee and Partner Funds. It is reviewed at least annually or whenever revisions are proposed and updated as necessary.

4. Skills and competency

Border to Coast will, where needed, take proper advice in order to formulate and develop policy. The Board and staff will maintain appropriate skills in responsible investment and stewardship through continuing professional development; where necessary expert advice will be taken from suitable RI specialists to fulfil our responsibilities.

5. Integrating RI into investment decisions

Border to Coast will consider material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that, as a long-term investor, we take them into account when analysing potential investments.

The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues will be considered and monitored in relation to both internally and externally managed assets. The CIO will be accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

Environmental	**Social**	**Governance**	**Other**
Climate change Resource & energy management	Human rights Child labour Supply chain Human capital Employment standards	Board independence/ diversity Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Bribery & corruption

5.1. Listed Equities (Internally managed)

Border to Coast looks to understand and evaluate the ESG-related business risks and opportunities companies face. We consider the integration of ESG factors into the investment process as a complement to the traditional financial evaluation of assets; this results in a more informed investment decision-making process. Rather than being used to preclude certain investments, it is used to provide an additional context for stock selection.

ESG data and research from specialist providers is used alongside general stock and sector research when considering portfolio construction, sector analysis and stock selection. The Head of RI will work with colleagues to raise awareness of ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings will be shared with the team to increase knowledge, and portfolio managers will be involved in the voting process.

5.2. Private Markets

Border to Coast believes that ESG risk forms an integral part of the overall risk management framework for private market investment. An appropriate ESG strategy will improve downside protection and help create value in underlying portfolio companies. Border to Coast will take the following approach to integrating ESG into the private market investment process:

- ESG issues will be considered as part of the due diligence process for all private market investments.
- A manager's ESG strategy will be assessed through a specific ESG questionnaire agreed with the Head of RI and reviewed by the alternatives investment team with support from the Head of RI as required.
- Managers will be requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring will include identifying any possible ESG breaches and following up with the managers concerned.

5.3. Fixed Income

ESG factors can have a material impact on the investment performance of bonds, both negatively and positively, at the issuer, sector and geographic levels. ESG analysis will therefore be incorporated into the investment process for corporate and sovereign issuers to manage risk. The challenges of integrating ESG in practice are greater than for equities with the availability of data for some markets lacking.

The approach to engagement also differs as engagement with sovereigns is much more difficult than with companies. Third-party ESG data will be used along with information from sources including UN bodies, the World Bank and other similar organisations. This together with traditional credit analysis will be used to determine a bond's credit quality. Information will be shared between the equity and fixed income teams regarding issues which have the potential to impact corporates and sovereign bond performance.

5.4. External Manager Selection

RI will be incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP will include specific reference to the integration of ESG by managers into the investment process and to their approach to engagement.

Voting is carried out by Border to Coast for both internally and externally managed equities where possible and we expect external managers to engage with companies in alignment with the Border to Coast RI policy.

The monitoring of appointed managers will also include assessing stewardship and ESG integration in accordance with our policies. All external fund managers will be expected to be signatories or comply with international standards applicable to their geographical location. Managers will be required to report to Border to Coast on their RI activities quarterly.

5.5. Climate change

Border to Coast will actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect its investments. These pose significant investment risks and opportunities with the potential to impact the long-term shareholder value of investments across all asset classes. Risks and opportunities can be presented through a number of ways and include: physical impacts, technological changes, regulatory and policy impact, transitional risk, and litigation risk. Border to Coast will therefore look to:

- Assess its portfolios in relation to climate change risk where practicable.
- Incorporate climate considerations into the investment decision making process.
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)[1] recommendations.
- Encourage companies to adapt their business strategy in alignment with a low carbon economy.
- Support climate related resolutions at company meetings which we consider reflect our RI policy.
- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Co-file shareholder resolutions at company AGMs on climate risk disclosure after due diligence, that are deemed to be institutional quality shareholder resolutions consistent with our RI policies.
- Monitor and review its fund managers in relation to climate change approach and policies.
- Participate in collective initiatives collaborating with other investors including other pools and groups such as LAPFF.
- Engage with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).

[1] The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) - The TCFD developed recommendations on climate-related financial disclosures that are applicable to organisations (including asset owners) across sectors and jurisdictions.
https://www.fsb-tcfd.org/publications/finalrecommendations-report/

6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation. As a responsible shareholder, we will become a signatory to the UK Stewardship Code[2] and the UN Principles of Responsible Investment[3].

6.1. Voting

Voting rights are an asset and Border to Coast will exercise its rights carefully to promote and support good corporate governance principles. It will aim to vote in every market in which it invests where this is practicable. To leverage scale and for practical reasons, Border to Coast has developed a collaborative voting policy to be enacted on behalf of the Partner Funds which can be viewed on our website at: Corporate Governance & Voting Guidelines.

A specialist proxy voting advisor will be employed to provide analysis of voting and governance issues. A set of detailed voting guidelines will be implemented on behalf of Border to Coast by the proxy voting advisor to ensure that votes are executed in accordance with policies. The voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances.

Where possible the voting policies will also be applied to assets managed externally. Policies will be reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund wishes Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this.

Border to Coast has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any voting rights on lent stock. Procedures are in place to enable stock to be recalled prior to a shareholder vote. Stock will be recalled ahead of meetings, and lending can also be restricted, when:

- The resolution is contentious.
- The holding is of a size which could potentially influence the voting outcome.
- Border to Coast needs to register its full voting interest.
- Border to Coast has co-filed a shareholder resolution.
- A company is seeking approval for a merger or acquisition.
- Border to Coast deems it appropriate.

Proxy voting in some countries requires share blocking. This requires shareholders who want to vote their proxies depositing their shares shortly before the date of the meeting (usually one week) with a designated depositary.

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[2] The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. https://www.frc.org.uk/Our-Work/CodesStandards/Corporate-governance/UK-Stewardship-Code.aspx

[3] The Principles for Responsible Investment (PRI) is the world's leading advocate for responsible investment enabling investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.

During this blocking period, shares cannot be sold until after the meeting has taken place; the shares are then returned to the shareholders' custodian bank. We may decide that being able to trade the stock outweighs the value of exercising the vote during this period. Where we want to retain the ability to trade shares, we may abstain from voting those shares.

Where appropriate Border to Coast will consider co-filing shareholder resolutions and will notify Partner Funds in advance. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

6.2. Engagement

The best way to influence companies is through engagement; therefore, Border to Coast will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights. The services of specialist providers may be used when necessary to identify issues of concern.

Border to Coast has several approaches to engaging with investee holdings. Meeting and engaging with companies is an integral part of the investment process. As part of our stewardship duties we regularly monitor investee companies and take appropriate action if investment returns are at risk. Engagement takes place between portfolio managers and investee companies across all markets where possible. Border to Coast and all twelve Partner Funds are members of the Local Authority Pension Fund Forum (LAPFF). Engagement takes place with companies on behalf of members of the Forum.

We will seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This will be achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.

Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and compliment other engagement approaches, an external voting and engagement service provider will be appointed. Engagement will take place with companies in the internally managed portfolios across various engagement streams; these will cover environmental, social, and governance issues as well as UN Global Compact[4] breaches.

We will expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policy.

We will engage with regulators, public policy makers, and other financial market participants as and when required. We will encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the TCFD recommendations.

[4]UN Global Compact is a shared framework covering 10 principles, recognised worldwide and applicable to all industry sectors, based on the international conventions in the areas of human rights, labour standards, environmental stewardship and anti-corruption.

6.3. Litigation

Where Border to Coast holds securities, which are subject to individual or class action securities litigation, we will, where appropriate, participate in such litigation. There are various litigation routes available dependent upon where the company is registered. We will use a case-by-case approach to determine whether or not to participate in a class action after having considered the risks and potential benefits. We will work with industry professionals to facilitate this.

7. Communication and reporting

Border to Coast will be transparent with regard to its RI activities and will keep beneficiaries and stakeholders informed. This will be done by making publicly available RI and voting policies; publishing voting activity on our website quarterly; reporting on engagement and RI activities to the Partner Funds quarterly; and in our annual RI report.

Consideration will also be given to voluntarily reporting in line with the TCFD recommendations.

8. Training and assistance

Border to Coast will offer the Partner Funds training on RI and ESG issues. Where requested, assistance will be given on identifying ESG risks and opportunities in order to help develop individual fund policies and investment principles for inclusion in the Investment Strategy Statements.

9. Conflicts of interest

Border to Coast has a suite of policies which cover any potential conflicts of interest between itself and the Partner Funds which are applied to identify and manage any conflicts of interest.

Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership

BORDER TO COAST
PENSIONS PARTNERSHIP

November 2018

1. Introduction

Border to Coast Pensions Partnership believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner Border to Coast will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders' role is to appoint the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. Border to Coast considers the UK Corporate Governance Code and other best practice global guidelines in formulating and delivering its policy and guidelines.

2. Voting procedure

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the framework within which the voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances. Voting decisions are reviewed with the portfolio managers. Where there are areas of contention the decision on voting will ultimately be made by the Chief Investment Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy.

Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. This will generally be where it holds a declarable stake or is already engaging with the company. In some instances, attendance at AGMs may be required.

Border to Coast discloses its voting activity on its website and to Partner Funds on a quarterly basis.

We will support incumbent management wherever possible but recognise that the neglect of corporate governance and corporate responsibility issues could lead to reduced shareholder returns.

We will vote **For**, **Abstain** or **Oppose** on the following basis:

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.

- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.

- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

3. Voting Guidelines

Company Boards

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders. The structure and composition of the board may vary between different countries; however, we believe that the following main governance criteria are valid across the globe.

Composition and independence

The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge to ensure the company can meet its objectives. Boards do not need to be of a standard size: different companies need different board structures and no simple model can be adopted by all companies.

The board of large companies, excluding the Chair, should consist of a majority of independent non-executive directors although local market practices shall be taken into account. Controlled companies should have a majority of independent non-executive directors, or at least one-third independent directors on the board. As non-executive directors have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, they must be able to demonstrate their independence. Non-executive directors who have been on the board for over nine years have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors.

The nomination process of a company should therefore ensure that potential risks are restricted by having the right skills mix, competencies and independence at both the supervisory and executive board level. It is essential for boards to achieve an appropriate balance between tenure and experience, whilst not compromising the overall independence of the board. The re-nomination of board members with longer tenures should be balanced out by the nomination of members able to bring fresh perspectives. It is recognised that excessive length of tenure can be an issue in some markets, for example the US where it is common to have a retirement age limit in place rather than length of tenure. In such cases it is of even greater importance to have a process to robustly assess the independence of long tenured directors. Where it is believed an individual can make a valuable and independent contribution, tenure greater than ten years will be assessed on a case-by-case basis.

The company should therefore, have a policy on tenure which is referenced in its annual report and accounts. There should also be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:

- Representing a significant shareholder.
- Serving on the board for over nine years.
- Having had a material business relationship with the company in the last three years.
- Having been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.

- Cross directorships with other board members.
- Having received or receiving additional remuneration from the company in addition to a director's fee, participating in the company's share option or performance-related pay schemes, or being a member of the company's pension scheme.

Leadership

The role of the Chairman (he or she) is distinct from that of other board members and should be seen as such. The Chairman should be independent upon appointment and should not have previously been the CEO. The Chairman should also take the lead in communicating with shareholders and the media. However, the Chairman should not be responsible for the day to day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power.

However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles. A senior independent non-executive director must be appointed if roles are combined to provide shareholders and directors with a meaningful channel of communication, to provide a sounding board for the chair and to serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance.

Non-executive Directors

The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. To do this effectively they need to be independent; free from connections and situations which could impact their judgement. They must commit sufficient time to their role to be able to carry out their responsibilities. A senior independent non-executive director should be appointed to act as liaison between the other non-executives, the Chairman and other directors where necessary.

Diversity

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination policy. Companies should have a diversity policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should give insight into how diversity is being addressed not only at board level but throughout the company and be disclosed in the Annual Report.

We will vote against chairs of the nomination committee at FTSE350 companies where less than 30% of directors serving on the board are female. We will promote the increase of female representation on boards globally in line with best practice in that region and will generally expect companies to have at least one female on the board.

Succession planning

We expect the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie. A succession policy should form part of the terms of reference for a formal nomination committee, comprised solely of independent directors and headed by the Chairman or Senior Independent Director except when it is appointing the Chairman's successor. External advisors may also be employed.

Directors' availability and attendance

It is important that directors have sufficient time to devote to the company's affairs; therefore, full time executives should not hold more than one non-executive position in a FTSE 100 company, or similar size company in other regions; nor the chairmanship of such a company. In the remaining instances, directors working as full-time executives should serve on a maximum of two publicly listed company boards.

With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors' other commitments and attendance records at formal board and committee meetings. A director should attend a minimum of 75% of applicable board and committee meetings to ensure commitment to responsibilities at board level.

Re-election

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be regularly refreshed to deal with the issues of stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice.

Board evaluation

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

Stakeholder engagement

Companies should take into account the interests of and feedback from stakeholders which includes the workforce. Taking into account the differences in best practice across markets, companies should have an appropriate system in place to engage with employees.

Engagement and dialogue with shareholders on a regular basis is key for companies; being a way to discuss governance, strategy, and other significant issues.

Directors' remuneration

Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that the link between executive pay and company performance is negligible. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.

Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues.

The compensation provided to non-executive directors should reflect the role and responsibility. It should be structured in a manner that does not compromise independence, enhancing objectivity and alignment with shareholders' interests. Non-executive directors should therefore, not be granted performance-based pay. Although we would not expect participation in Long-term Incentive Plans (LTIPs), we are conscious that in some exceptional instances Non-executives may be awarded stock, however the proportion of pay granted in stock should be minimal to avoid conflicts of interest.

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided.

• **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to delivering the strategy of the business and performance over the longer-term. Bonuses should be set at an appropriate level of base salary and should be capped. Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event.

• **Long-term incentives**

Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. Border to Coast therefore encourages companies to simplify remuneration policies.

Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value. However, poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

Incentives are linked to performance over the longer-term in order to create shareholder value. If restricted stock units are awarded under the plan, the vesting period should be at least three years to ensure that the interests of both management and shareholders are aligned in the long-term. Employee incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation.

Directors' contracts

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should not be excessive, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third-party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report.

Corporate reporting

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the Report and Accounts. As well as reporting financial performance, business strategy and the key risks facing the business, companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report (other than those for investment trusts) should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks. We will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

Audit

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets. To ensure that the audit committee can fulfil its fiduciary role, it should be established as an appropriate committee composition with at least three members who are all independent non-executive directors and have at least one director with a relevant audit or financial background. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures.

FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

Non-Audit Fees

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three-year aggregate basis, unless sufficient explanation is given in the accounts.

Political donations

There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. Companies should disclose all political donations, demonstrate where they intend to spend the money and that it is the interest of the company and shareholders. Where these conditions are not met political donations will be opposed.

Lobbying

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and where there are differing views on issues.

Shareholder rights

As a shareowner, Border to Coast is entitled to certain shareholder rights in the companies in which it invests (Companies Act 2006). Boards are expected to protect such ownership rights.

- **Dividends**

Shareholders should have the chance to approve a company's dividend policy and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to seek approval would elicit opposition to other resolutions as appropriate.

- **Voting rights**

Voting at company meetings is the main way in which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential voting rights are disadvantageous to many shareholders and should be abolished. We will not support measures or proposals which will dilute or restrict our rights.

- **Authority to issue shares**

Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

- **Disapplication of Pre-emption Rights**

Border to Coast supports the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority.

Share Repurchases

Border to Coast does not necessarily oppose a company re-purchasing its own shares but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

Memorandum and Articles of Association

Proposals to change a company's memorandum and articles of association should be supported if they are in the interests of Border to Coast, presented as separate resolutions for each change, and the reasons for each change provided.

Mergers and acquisitions

Border to Coast will normally support management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when evaluating the merits of merger and acquisition activity, but full information must be provided to shareholders on governance issues when they are asked to approve such transactions. Recommendations regarding takeovers should be approved by the full board.

Articles of Association and adopting the report and accounts

It is unlikely that Border to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be occasions when we might vote against them to lodge dissatisfaction with other points raised within this policy statement. Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

If proposals to adopt new articles or amend existing articles might result in shareholders' interests being adversely affected, we will oppose the changes.

Virtual Shareholder General Meetings

Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. There are some advantages to virtual only meetings as they can increase shareholder accessibility and participation; however, they can also remove the one opportunity shareholders have to meet face to face with the Board to ensure they are held to account. We would expect an electronic meeting to be held in tandem with a physical meeting. Any amendment to a company's Articles to allow virtual only meetings will not be supported.

Shareholder Proposals

We will assess shareholder proposals on a case by case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

Investment trusts

Border to Coast acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards. However, the conventions applying to audit, board composition and director independence do apply.

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager will not be supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of investment trusts as they do to any other quoted companies.

We may oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.