North Yorkshire County Council

Pension Fund Committee

Minutes of the meeting held on 13 September 2019 at County Hall, Northallerton, commencing at 10 am.

Present:-

County Councillors John Weighell OBE (Chairman), Michael Chambers MBE, Carl Les (as substitute for Angus Thompson), Patrick Mulligan and Helen Swiers.

Councillor Ian Cuthbertson - City of York Council.

David Portlock - Chair of the Pension Board.

Apologies were received from County Councillors Andy Solloway and Angus Thompson; together with North Yorkshire District Councils Representative - Councillor Jim Clark.

The Chairman noted that this was the first meeting of the Committee since County Councillor John Blackie had died. He paid tribute to his work undertaken on behalf of the Committee and North Yorkshire Pension Fund, which was echoed by those present.

Copies of all documents considered are in the Minute Book

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134. Minutes

Resolved -

That the Minutes of the meeting held on 4 July 2019 were confirmed as read and signed by the Chairman as a correct record.

135. Declarations of Interest

There were no declarations of interest.

136. Public Questions or Statements

Dr Margaret Jackson addressed the Committee highlighting the following:-

- She highlighted the health impacts of fossil fuel driven climate change
  - through the direct effects of weather, in particular extreme weather events
  - effects medicated by natural systems such as change in distribution of disease vectors
  - effects medicated by social systems such as malnutrition, violence or mass refugee flows.

- Pathways limiting global warming to 1.5ºc with no or limited overshoot would require rapid and far-reaching transitions in energy, land, urban and infrastructure, and industrial systems. The systems transitions were unprecedented in terms of scale, but not necessarily in terms of speed and implied a deep emissions reductions in all sectors, a wide portfolio of mitigation options and a significant up-scaling of investments in these options - IPCC Special Report October 2018.

- The evidence was clear that the higher the global temperature increase the more disruption would result and the more challenging would be any mitigation. At 1.5^{o}c mitigation was possible and impacts could be largely contained, beyond that it could expect serious health impacts. At 3.5-5^{o}c large scale societal disruption could be expected with loss of food production, sea level rise resulting in a loss of many major urban centres and huge movements of people being amongst the expected outcomes.

- The science indicates that it is imperative that global temperature rise is limited to 1.5^{o}c.

- The fossil fuel industry however has not got this in its sights.

- Evidence that the fossil fuel industry has undermined and continue to undermine a transition towards a zero carbon world.

    - The five largest publicly traded oil and gas majors had invested over $1bn in three years following the Paris agreement on misleading climate-related branding and lobbying with the aim of maintaining their social and legal licence to operate to further expand fossil fuel operations.
    - An average fossil fuel company's allocated just 1.3% of their total 2018 capital expenditure to green energy projects. She provided examples of those.

- Futility of engagement "Shell's core business was and will be for the foreseeable future very much in oil and gas" - Shell CEO - October 2018.

- Managed shift to renewables - were NYPF to commit to disinvestment today, the lights would not go out tomorrow, but there would be a greater hope that there would be rapid shift to renewables that was needed.

<u>Question to Committee</u>

You have stated in your response to a previous letter that a managed shift to renewables was required. Given the urgency that the climate crisis represents and the need to transition away from widespread fossil fuel use without delay, can the Committee agree that this transition is urgent and needs to be actioned now?

Dr Tim Thornton addressed the Committee highlighting the following:-

Local authorities around the UK have significant funds invested directly in fossil fuels as well as mixed investment vehicles. Overall UK authorities have around £16bn of investment in fossil fuels exposed to an increasing risk of being caught out when the market suddenly turns. A global coal crash caused an estimated £638m to be wiped off the value of the UK authorities Pension Funds and experts are warning investors who hold onto investments in oil and gas will suffer losses soon if they do not divest in time.

We know the impact of fossil fuels on the climate and that we have a very short time to respond to the threat of global overheating. We have already discovered about five times the quantity of fossil fuel reserves that theoretically might be exploited and yet the companies continue to seek out greater resources. If we are to come anywhere near the 1.5% maximum for global temperature rise we need to leave over 80% of the known resources in the ground. This would result in huge levels of stranded assets for the fossil fuel companies. This is no longer a matter of belief but an accepted view from the majority of serious scientists. The facts are known. It is now for all of us to consider how we respond to the challenge.

As with transition from horse to the motorcar and the end of coal-fired power stations the collapse of the asset value in fossil fuels is likely to be rapid and perhaps terminal from the companies. A Minsky moment. The assets of the Pension Funds are therefore at this risk. This is not just a country GP expressing concern but a view put forward by Mark Carney who recently stated that the vast majority of the existing reserves of fossil fuels are literally unburnable. He warned of the impending bursting of a carbon bubble.

He provided details of the Band of England's supervisory statement from April noting the climate change and society's response to its present financial risks which might crystallise out in full over longer horizons.

I can imagine that the whole spector of climate crisis and the investment decisions that must accompany the concept are burdensome and unprecedented but none of us can escape our responsibilities. You should not be alone in making the move however. Up to the present moment some $8.68trillion has been identified for divestment and the Norwegian sovereign well fund has committed to divest around $7.5bn of its fossil fuel holdings.

The UK Stewardship Code set out by the Financial Reporting Council points to the responsibilities of the investors which include - risks that might arise from social and environmental matters.

In the NYPF Strategy it was recognised in section 6 and 7 that the Committee retain the responsibility for the investment strategy and asset allocation despite the day to day activity being the responsibility of the Pool.

Client Earth, under the leadership of James Thornton, had listed a few common misconceptions in the relationships between the Local Government Pension Scheme and the Local Authorities. He referred to the Keith Bryant QC Opinion on the need for the Authority to assess the financial risks of climate change and must take those risks into account when making their investment decisions. He noted that if the Authority failed to take due consideration it could be legally challenged.

The Opinion points out that the Authority cannot simply delegate the investment decision making to the Investment Managers it is the Authority that carries out the responsibility for strategic asset allocation.

It may be suggested that NYPF needed the cash flow and growth from fossil fuel investment. Somewhat surprisingly the evidence on the financial returns from fossil fuels is very disconcerting. Trinks et al looked at data from 1927 until 2016 and found that divestment from fossil fuels at any time during that period would have no impact on the value or the performance of the Fund.

New York State Retirement Fund would have been $22bn better off if it had invested ten years ago. The loss represented nearly $20,000 for each of its Fund's members.

Standard and poor fossil free funds had outperformed the S&P funds with fossil fuels included.

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Finally the option to influence large fuel companies just does not exist. Their business model was business as usual and exploration for further fossil fuel resources continued unabated.

He asked to pose the following questions:

Will the Pension Fund Committee please look at the risk that fossil fuels add to their portfolios at the levels of exposure and future expectations of competition from cheaper and cleaner renewables?

Will the Committee accept the need to move away from fossil fuel investment?

Will the Committee get a short term period to achieve that disinvestment in order that the Pension Fund is protected from the anticipated brisk drop in value of their pensions?

Following the initial questions the Chairman stated that a written response would be submitted to provide a full and detailed answer to the issues raised. He noted that Pension Fund Committee Members did not directly stock pick as that was left to the Asset Managers who acted on behalf of the Pension Fund. He noted that previously a Fund Manager had undertaken an ethical investment process, but that had been discontinued as it had not been effective. He noted that as the Fund moved into pooling the say on stock picking would diminish further.

A Member suggested that the issues raised should be discussed with BCPP as they would be the investment vehicle for the NYPF going forward. He noted that there was little in relation to fossil fuels within the current NYPF funding portfolio.

The Treasurer stated that a full written response would be provided to both questioners.

He brought the attention of the questioners to page 31 and 32 of the pack of papers provided for the meeting, which had been supplied to them.

He noted that paragraph 7 "how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments", provided details of how investments were undertaken in relation to the issues they raised.

He noted that voting rights attached to investments could be made more transparent, and the aim was to address that.

The questioners were thanked for their attendance at the meeting and again it was emphasised that full and detailed responses would be provided in relation to the question that they raised.

137. 2019 Triennial Valuation - Update

The Fund's Actuary, AON Hewitt, provided a detailed update in relation to the 2019 Triennial Valuation, highlighting the following:-

- Two specific sections to the valuation
    - Financial health of the Fund - look at financial position of the Fund on valuation date, compare to what the Actuary thinks this should be like, consider whether there is a surplus or a shortfall.

- Look forward - benefits accrued - determine how much employers need to pay to cover the benefits going forward - calculate primary rate if no shortfall - adjustments if shortfall or surplus.

♦ Process - based on member data for Fund - analysed in run up to valuation - assumptions made on unknown issues to build up a picture of expected benefits for all members.

♦ Membership up to the valuation date is taken account of and is discounted to come up with the final figure.

♦ Details of the number of members in each category - active, deferred, pensioner - were outlined in the report.

♦ Numbers within the NYPF were still growing with the largest number being deferred.

♦ The average age of people within the NYPF was up slightly, therefore, liabilities were increased accordingly.

♦ Details of the key assumptions and what benefits were likely to be were provided, with comparisons to 2016.

♦ Issues around pay and the effect on the Fund, on the assumptions made, were provided.

♦ Assumptions were set to the best estimate in terms of the demography for the NYPF and how long members were likely to live. It was known that mortality rates had declined slightly on the previous valuation, which provided a more positive position in terms of the assumptions.

♦ Differences between the assumptions made in relation to private sector pensions and the LGPS were outlined and it was noted that the approach to the process was based on the Investment Strategy of the NYPF.

♦ The three year period since 2016 valuation had been particularly successful, with huge returns over that period assisting with the valuation.

♦ Full details of the proposed valuation for 2019 were provided, together with a recap of the 2016 results, by way of comparison. Details of how this affected the valuation of the Fund and the potential contributions from employers were fully outlined.

♦ The implications of the McCloud Judgment were considered, with details of how this could affect the valuation, going forward, outlined. It was noted that an adjustment had been made in relation to this.

♦ Details were provided in relation to the setting of a valuation when an employer was in surplus, with funding positions above 110% taken into account.

♦ With all the details in place the valuation for 2019 was outlined, with recommendations to be considered as to how this would relate to contributions for employers developed accordingly.

♦ It was noted that the impacts of the McCloud Judgment, Brexit and the RPI would continue to be monitored, going forward, in respect of the valuation.

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Following the initial presentation a number of issues and points were raised by Members as follows:-

- It was asked whether account had been taken of the move into investment pooling, in terms of the valuation. In response it was noted that the valuation was based on investments in asset class, rather than manager performance and, therefore, the Investment Strategy was key in relation to this, which was not affected by the pooling of the investments. It was emphasised that the valuation took into account the long term position of the Fund.

- Discussion took place in relation to the potential contribution rate for employers, in relation to the valuation. It was noted, that in view of the current position of the Fund the recommendation was likely to be that contributions remained as at present. Further consideration of the contribution rates had yet to take place and employers would be consulted in respect of this.

- It was noted that a number of other Funds had developed a surplus through investments over the period between the triennial valuations (2016 to 2019), however, the NYPF had been one of the major outperformers.

- It was noted that further consideration of the triennial valuation would be undertaken at the November 2019 meeting of the Pension Fund Committee and, therefore, decisions on contribution rates would be made at that time.

Resolved -

That the report be noted.

138. Governance of the Fund

Considered -

The report of the Treasurer requesting Members to approve, or note as appropriate, a range of governance documents as follows:-

- Investment Strategy Statement.
- Funding Strategy Statement.
- NYPF Annual Report and accounts.

Members were also asked to consider an update on the Annual Governance Review of the Fund undertaken by the Fund's Independent Professional Observer, Peter Scales, and to consider an update on the Hymans Good Governance Project.

Initially, the Treasurer invited the Independent Observer, Peter Scales, to introduce his report. He highlighted the following:-

- The Committee's governance arrangements continued to be maintained at a high standard and were consistent with other LGPS Funds.

- The policy documents were compliant with the Regulations, subject to comments made on the ISS, and were well drafted.

- CIPFA guidance on preparing the Annual Report had sharpened the focus on compliance, but had added greater complexity to governance.

- The governance of the new pooling arrangements (BCPP) continued to develop and more work was required to be done at the local level.

- The Pension Board continued to operate effectively and in line with its responsibilities - reference was made to the process for considering Internal Audit reports.

- A number of developing issues relating to changes in regulations and guidance were outlined.

- The outcome of the Hymans Robertson Good Governance Review was likely to lead to changes in the governance arrangements for both the Committee and the Board.

- A suggested review of the result of the Pension Regulators 2018 survey and participation in the local Pension Board survey 2019 was put forward.

- He noted that the Annual Report was compliant in the main, but indicated some areas of action that he considered were not fully covered in terms of what must be included in the Annual Report.

  The Chairman of the Pension Board noted that the Annual Report of the Pension Board was available, a copy was due to be considered later in the meeting and could be linked into the NYPF Annual Report if this was considered appropriate. Peter Scales indicated that linkage or a summary of the report would be beneficial to the Annual Report of the NYPF. The Treasurer stated that he would ensure that the issues raised by the Independent Observer were included in the Annual Report.

- Issues of concern regarding the implementation of pooling arrangements were picked up in section 6 of the report. It was noted that there were a number of detailed governance issues to be resolved at a local level in particular, in the transition to a new structure, and the involvement of the Committee and the Board. He expected that practical governance arrangements would be developed to ensure that these worked effectively.

  Members discussed their current concerns regarding the transferring of investments to BCPP and the governance arrangements in relation to that. The Independent Observer emphasised that transition was not a factor to discuss in terms of governance, as that was a requirement set out in the legislation, the issues that would be discussed, going forward, related to the overall governance of BCPP and how they interacted with the various Pension Funds. It was noted that, following transition, the Pension Fund Committee would no longer have direct relationships with Fund Managers, as that would then be undertaken by BCPP. Feedback from BCPP to the Pension Fund Committee, therefore, would be imperative. The Treasurer noted that a representative of BCPP now attended all Pension Fund Committee meetings, and would continue to do so, to assist with these matters.

  The representative of BCPP stated that he would raise any concerns of the Pension Fund Committee with relevant officers at BCPP and would also ensure that information was as open and transparent as possible. It was noted that a response had been submitted to the MHCLG regarding its informal consultation on draft guidance on pooling and further guidance was awaited as a result of this.

- In relation to operations undertaken by the Pension Board it was emphasised that this was working effectively as a body. The Independent Observer had one concern regarding Internal Audit reports going directly to the Pension Board, without these being previously referred to the Pension Fund Committee, with Members of the Committee only having access to those through the Minutes of the Pension Board. The Chairman of the Pension Board noted that this had been an historical factor, from the inception of the Pension Board, as an issue that would be considered by the Board. The Treasurer noted that should the Pension Fund Committee wish Internal Audit reports to be provided to the Committee then this could be undertaken.

- Issues around the increasingly complex nature of regulations and guidance relating to the LGPS were outlined. In relation to the earlier public questions it was noted that the Scheme Advisory Board indicated that they had plans to propose amendments to the guidance in the Investment Regulations to reflect the Government's policy on climate change and wider responsible investment considerations.

- Issues around the Hymans Robertson's report on Good Governance were provided and it was noted that these could have an effect on the governance arrangements for the Pension Fund Committee and the Pension Board going forward.

- In conclusion the Independent Observer highlighted the following:-

    - The North Yorkshire Pension Fund continues to be administered in line with good governance principles.
    - The governance framework was complex and subject to continuing change.
    - Governance oversight appeared to operate on the presumption of poor compliance unless proven otherwise.
    - There was no requirement on those who regulated and advised the LGPS nationally to maintain a suitable level of knowledge and skills.

Following the report of the Independent Observer the Treasurer returned to the main report, highlighting the following:-

- The draft Investment Strategy Statement

  He stated that he would make amendments, as recommended, to ensure that this was fully compliant and reflected the issues around voting. He noted that all amendments would be undertaken and approved as part of the suite of governance documents and any further changes would be brought to the Committee for approval.

- Annual Report

  The suggested amendments would be undertaken including:-

    - Details on voting.
    - A link to the Pension Board Annual Report.

  The Treasurer noted that the Statement of Final Accounts had now been approved by the Audit Committee and there had been no major issues that had arisen since the Pension Fund Committee had considered these.

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It was noted that Independent Investments Advisor, Leslie Robb, should be added to the list of advisers within the report.

- Hymans Robertson Good Governance Project

  The Treasurer stated that the project had identified that having an Independent Observer attached to a Fund, as already in place for the NYPF, would be beneficial. Many of the recommendations within the report were already part of the NYPF's current practice.

  It was noted that final guidance from the Scheme Advisory Board was awaited in terms of recommendations from the project and these would be provided to both the Pension Fund Committee and Pension Board when published.

Resolved -

(i) That the following governance documents be approved subject to the amendments identified:

- Investment Strategy Statement
- Funding Strategy Statement
- NYPF Annual Report

(ii) That the changes made to the 2018/19 NYPF Statement of Accounts be noted.

(iii) That the content of the Annual Governance Review undertaken by the Independent Professional Observer be noted and the changes required to the governance documents, as outlined, be agreed.

(iv) That the update on the Hymans Good Governance Project be noted.

139. Budget/Statistics

Considered -

The report of the Treasurer outlining the 2019/20 - Cost of Running the Fund and the 2019/20 Cash Flow Projection for the Fund.

He reported that the latest outturn position against the 2019/20 budget was appended to the report. Overspends were reported against investment fees (£7.1m), consultants fees (£230k) and the GMP Reconciliation Programme (£31k), resulting in an overall forecast overspend of £7.4m against the budget.

An explanation was provided regarding the issue of transaction costs disclosed by Fund Managers, as discussed at the previous meeting, and it was noted that these had resulted from an increase in transparency and did not impact on the net performance nor the cash flow, as they were not new costs.

A review of the management fees had been undertaken and it was estimated that the 2019/20 fees would be in the region of £26.3m, an increase of £7.1m in the budget. The estimate was in light of the current valuation of the Fund and took account of the known factors such as the movement of funds during the period.

Forecast expenditure on consultants' fees was £38k, which exceeded the budget by £230k. Additional to the annual fixed fee of £69k, further fees totalling £190k had been incurred. A further estimate of around £120k had been made for fees incurred during the remainder of 2019/20.

Expenditure of £31k was forecast for the GMP Reconciliation Programme in 2019/20 which was mainly due to £21k of expenditure originally planned for 2018/19 not being incurred until then. Additionally £10k was required to allow final reconciliation of GMP data and HMRC data.

The cash flow position for the Fund was appended to the report. The estimated cash flow for the Fund in 2019/20 was a £12.1m deficit, the position mainly being due to the £13m pre-payment of deficit contributions relating to 2019/20 in 2017/18. The deficit had increased since that of £7.7m reported to the Committee in July due to a £2.1m net increase in payments made from the Fund and a £2.3m increase in the costs of administering the Fund compared to the 2018/19 outturn. The net increase in payments made, £2.1m, was as a result of an increase in the forecast transfer out and lump sum payments (£5.9m) which had been partially offset by an increase in the forecast contribution income (£3.8m).

It was noted that as the results of the 2019 triennial valuation were not yet available a three year cash flow position had not been reported to the meeting. As soon as the results of the triennial valuation were available an updated cash flow position for the next three years would be provided to the Committee.

Following the initial presentation a number of issues and points were raised as follows:-

- Clarification was provided regarding the performance fees detailed, in relation to Fund Managers, and it was noted that transparency requirements had highlighted that a number of transaction costs had not been included within those fees. The Treasurer stated that a breakdown of the fees for all managers would be provided to Members to ensure that the position was fully transparent. It was noted that the whole industry was now looking to be more transparent in terms of published costs and fees and emphasised that the increased figures were due to transparency rather than any increase in costs.

- Noting the earlier report on the triennial valuation it was asked whether the position regarding contributions from employers, going forward from the valuation, would affect the cash flow of the Fund during the intervening period. The Treasurer considered that the details outlined earlier in the meeting had addressed the potential position for contribution levels and did not expect this to have a significant impact on the cash flow position moving forward. It was noted that the cash flow position during the current period had been affected by the pre-payment of deficit contributions and this position could again be affected during the current triennial valuation period. The Treasurer stated that he would continue to monitor the situation, reporting regularly to the Committee, and consider ways of maintaining an appropriate cash flow position.

- Clarification was provided in relation to the negative values in the expenditure up to 30 June 2019, which were costs in respect of 2018/19 yet to be invoiced for.

Resolved -

That the contents of the report be noted.

140. 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 to provide an update on key issues and initiatives which impacted the Administration Team.

The report provided details on the following issues:-

- Admission agreements and new academies.
- Administration - membership statistics, throughput statistics, performance statistics, commendations and complaints.
- Annual Benefit Statements 2019.
- Employer charging.
- Issues and initiatives.
  - GMP reconciliation.
  - Breaches Policy and Log.
  - Efficiency initiatives.
  - Additional voluntary contributions.
- Member training.
- Meetings timetable.

It was noted that, in terms of the Annual Benefits Statements 2019, 99.9% of deferred statements had been published on time, which was a significant improvement on the previous year.

In relation to active statements, 95.69% had been issued. A rundown of the issues that had prevented the 1,342 statements that were yet to be published was provided.

An analysis of the first quarter and the year-end data had been undertaken resulting in 65 employers being charged for a total of £16,380. Discussions with employers had resulted in some amendments to internal processes and a tightening up of management of forms and data being submitted.

It was noted that City of York Council had worked extremely well alongside the Administration Team to address issues around the submission of data and, with a great deal of co-operation, had made a tremendous improvement to the timeliness and content of that information.

The first employer meeting to have been held for a three year period would be taking place on 25 October 2019 and would take account of the valuation results at Fund level, with the Actuary making a presentation to that meeting.

A review of the additional voluntary contribution (AVC) lifestyle funds offered by Prudential had determined that the current offering was no longer fit for purpose as it did not result in members being provided with low risk investments, therefore, four new funds had replaced the existing lifestyle funds. Two funds from those offered had been chosen by the NYPF and those were detailed in the report. Affected members had been contacted directly by Prudential and were being transitioned to the cash targeted life style fund as a default. It was noted that there were relatively few people with AVCs and that the investments were outside of the pooling process. It was noted that AVCs would continue to be monitored to determine whether better products could be offered to members in the future.

The Chairman of the Pension Board reiterated the comments made in relation to the publication of the Annual Benefit Statements for 2019, praising the work and engagement undertaken to provide a better position than in recent years. He noted that consideration had to be given in relation to contacting the Pensions Regulator around a potential breach of the Regulations in terms of 100% of the Annual Benefit Statements not having been issued within the designated time period. He stated he would discuss this matter with officers, outside of the meeting, in order to receive full details, before any decision was made on that matter.

Resolved -

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

(ii) That the contents of the Breaches Log be noted.

141. Performance of the Fund

Considered -

The report of the Treasurer providing details of the investment performance of the overall Fund, and of the individual Fund Managers, for the period to 30 June 2019.

The report indicated that the absolute overall return for the Quarter, 4.1%, was above the customised benchmark for the Fund, 3.8% by 0.3%.

The 12 month absolute rolling return was 5.8%, 0.6% below the customised benchmark of 6.4%.

The report provided details on individual Fund Manager's 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.
- Cash investment.

Details relating to risk indicators, solvency, rebalancing and proxy voting were also provided.

The Fund's Investment Consultants, AON Hewitt, provided an in-depth analysis of the investment performance. The performance was discussed with Members and the following issues and points were highlighted:-

- The Fund had increased in value by £133m, since the report at the end of June - 4.1% above the benchmark.

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- There had been positive returns in all asset classes with equities being the strongest performer. Details of the performance of individual Fund Managers were outlined.

- Bonds and gilt yields were falling in general with a number of economic factors affecting those.

- The current asset allocation in respect of the Fund's Investment Strategy was outlined and it was noted that investments were being re-allocated in line with the revised Strategy to address the position regarding large investments in equities and the potential risk from market volatility. It was noted that equity protection was now in place, following agreement at a previous meeting, which would protect the Fund against significant falls in equity investments. The details of that protection were outlined.

- Members raised concerns regarding the funding of the equity protection from L&G, however, it was noted that this decision had been made by the Committee at a previous meeting, in respect of the development of the Strategy, to lower volatility.

- Issues around investments in Newton were discussed in relation to recent performance and the rating provided by AON. An explanation of the rating was provided.

- Issues around the general performance of diversified growth funds were discussed.

- It was noted that the investments made with BCPP had not been reported, on this occasion, as a full quarter had not yet elapsed. Details would be provided in future reports when sufficient opportunity had been provided for the investments to perform with relevant feedback then provided.

- Concern was raised that the transfer of investments to BCPP from Standard Life in relation to UK equities had seen a residual amount left with Standard Life that had not been transitioned. The Treasurer stated that he had requested details from the Transition Manager to provide a full and detailed audit trail to determine why this was the case. The representative of BCPP stated that details in respect of this matter could be provided.

Resolved -

That the investment performance of the Fund for the period ending 30 June 2019 be noted and the costs in relation to the transition of funds from the UK equities portfolio to BCPP be reported to a subsequent meeting of the Committee.

142. Investment Strategy Review

Considered -

The report of the Treasurer relating to the following:-

(i) Requesting Members to confirm the NYPF allocation to BCPP's Private Debt fund.

(ii) To provide an update on the BCPP Multi Asset Credit and Investment Grade Credit sub-funds as part of the NYPF's liquid credit allocation.

(iii) To provide an update on the Global Equity transition.

(iv) To provide an update on the implementation of the Equity Protection Strategy.

Global Equity Transition

Preparation stages of the transition had commenced to ensure that the target date was achieved. The Funds in BCPP had been asked to confirm their allocation based on 31 July 2019 market conditions. An investment of up to £1bn was approved at a special PFC meeting in June 2019, based on current market conditions, which represented 55% of the Fund at that time. The total invested in global equities at 31 July 2019 was around £2.07bn, therefore, an investment of £1bn was confirmed to BCPP which represented 48.4% of the total Global Equity allocation.

An update was provided in terms of the transition and details of progress were noted.

Issues relating to transition costs were discussed and a Member requested that reports were provided to the Pension Fund Committee to ensure that these were as transparent as possible.

Equity Protection Strategy

The Treasurer highlighted the Strategy and how that had been funded, as discussed earlier in the meeting. He considered that the Equity Protection was an effective risk aversive tool for the Fund, providing protection against significant losses from market volatility. The Strategy was short term to protect against equity risk while investment in alternative asset classes was being implemented.

Allocation to Private Debt

The Treasurer noted that the next BCPP Sub-Fund to launch was the Private Debt fund, in Quarter 4 2019. BCPP had asked for the various Pension Fund Committees to confirm final commitments to the fund by the end of September. Due to illiquid nature of the alternative investments commitments would be raised in subscription windows.

Members had agreed to invest 10% of the Fund in illiquid credit, which included a 5% allocation to private debt, around 3.5% which was already committed. It had been agreed, therefore, that the remaining 5% would be allocated to property debt however an investment had not yet been made as alternative options were imminent from BCPP.

In relation to this AON Hewitt, the Fund's Investment Consultants, had undertaken a high level due diligence review of the BCPP Private Debt fund. As a result they proposed that the Committee review the current strategic allocation to private debt and consider a commitment of up to 4% in the BCPP Private Debt sub-fund, subject to further due diligence. An investment of around 2% was recommend to bring the total commitment in line with the current 5% allocation. There was also a further option to increase the strategic allocation to private debt and make an investment of up to 4% in the BCPP sub-fund.

Representatives of AON Hewitt gave a presentation in relation to their review of BCPP's Private Credit proposal, details of which were circulated. The presentation highlighted the following:-

♦ Private credit - an overview

- Why invest in private credit.
- Risk/return.

♦ BCPP's private credit considerations

  - Key considerations regarding BCPP offer.

♦ Next steps

  - How much to allocate and next steps.

♦ BCPP private credit - fund objective.

♦ BCPP private credit - risk versus return.

♦ Private credit: areas of focus.

♦ What we have looked at - high level information across all key areas.

♦ BCPP private credit - fund allocation.

♦ BCPP private credit - fund specifics and AON's views.

♦ BCPP private credit - AON's questions.

♦ Private credit - what are we looking for now?

♦ Private credit - what are the dos and don'ts.

AON suggested the following in terms of how the Pension Fund Committee should proceed:-

♦ Consider a commitment of £75m (2%) to £150m (4%) by 4 October.

♦ Lower end of spectrum, if used to top-up direct lending allocation up to around 5% level and:

  - Further training required, particularly on; infrastructure debt, mezzanine/speciality and distress debt.
  - Do not wish to significantly increase strategic allocation to direct lending at this time.
  - Consider further investments in the future (commitments open every 18 month) to this solution, or other BCPP solutions, to replace 5% property debt desired allocation.
  - Alternative resource property debt manager(s) outside BCPP.

♦ Higher end of spectrum if:

  - Comfortable with newer asset classes.
  - Comfortable with higher weights to direct lending and lower weight to property debt than originally expected.
  - Wish to build private debt allocation quicker.
  - Wish to benefit from asset class and geography diversification.

♦ Commitments to come from current allocation to Treasury cash.

The representative of BCPP, CIO Daniel Booth, was present at the meeting and provided detailed information in relation to BCPP's private debt offering. It was noted that the aim of the BCPP Private Debt fund was to invest in a diversified portfolio of global private debt investments to generate a long term return of 6% per annum net of fees. Investments would be made across a wide range of strategies, including direct lending, property/infrastructure debt, mezzanine and stressed/distressed debt.

Members undertook an in-depth discussion of the proposed allocation to private debt with BCPP and the following issues and points were raised:-

- A Member raised concerns regarding investments in illiquid assets, as returns in such investments, by the Fund, that had taken place in recent years had not proved to be particularly effective. In response it was emphasised that investment in illiquid assets was part of a long term strategy that would assist in meeting the NYPF Investment Strategy of reducing risk and guard against market volatility, while the Fund was in a strong financial position. It was emphasised that this investment was being considered as part of the offer from BCPP and correlated with the Investment Strategy agreed by Members at previous meetings.

- Members raised concerns regarding entering into an investment in an asset class without the appropriate knowledge to fully understand the details behind the investment. It was explained that an additional meeting could be called to consider the allocation, with training for Members on the issues of uncertainty provided in the interim. An explanation of some of the terms queried by Members was provided by the CIO of BCPP, to assist with their understanding of the investment and the specific terms used in relation to that.

- An explanation was provided of the fees for the management of the investment.

- The Independent Investment Advisor to the Fund stated that he was at ease with the investment as reassurance had been provided regarding the management of the Funds by BCPP, with Fund Managers in place that had extensive experience in private debt. Members recognised that position, but were guarded in relation to the future recruitment of experienced personnel to manage this investment had yet to be completed.

- Members took reassurance from the CIO of BCPP leading the management of this investment and his extensive knowledge and experience in this area. As a result Members were minded to commit to an investment in the BCPP private debt sub-fund, subject to further due diligence.

<u>Illiquid Credit Allocation</u>

It was noted that the long term strategy for the Fund indicated an allocation 7.5% to illiquid credit. Investment Consultants proposed allocating this across investment and sub-investment grade credit assets in the Investment Strategy review. The next steps would be to provide the Committee with further training on credit investments and work with BCPP on their credit offerings with a view to investing when suitable sub-funds became available.

Workshop sessions had been held with multi-asset credit investments at a workshop on 24 May 2019. The target launch of the BCPP MAC Sub-Fund was Quarter 2 of 2020. There was to be a separate sub-fund launched in Quarter 4 of 2019 for investment credit. Pension Fund Committees were being asked to confirm their initial investment in this sub-fund by the end of September.

At this stage it was not proposed that the NYPF made a commitment to investment grade credit on initial launch of the sub-fund. It was also advised that the Fund awaited further details on the MAC sub-fund first and determine the best blend of investment across these sub-funds to achieve the requirements of the Fund, subject to further due diligence.

Resolved -

(i) That the long term allocation to private debt was reviewed.

(ii) That an initial investment in the BCPP Private Credit fund be undertaken, with 2% (£75m) being committed to that, the funding being obtained as outlined in the report from AON Hewitt and subject to their further due diligence.

(iii) That the update on BCPP's investment grade credit and multi-asset credit sub-funds be noted, with no commitment to invest at this stage.

(iv) That the update on the global equities transition be noted.

(v) That the update on the equity protection implementation be noted.

143. Pension Board - Draft Minutes of the Meeting held on 18 July 2019

The Chair of the Pension Board presented the Minutes of the meeting held on 18 July 2019, highlighting the following:-

- The Treasurer and the Independent Observer to the NYPF had attended the meeting and assisted with the consideration of items on the agenda.

- A review of the Terms of Reference for the Pension Board had taken place and details were on the agenda for today's meeting.

- A draft of the Pension Board's Annual Report was presented to the meeting and again this was on the agenda for today's meeting.

- The Board evaluation skills matrix questionnaires were to be evaluated to develop a training plan for the Pension Board, but now the questionnaires had been sent to Pension Fund Committee Members it was considered appropriate that the results of these be awaited allowing a combined approach between Pension Fund Committee and Pension Board to be developed in terms of a training programme.

- Pooling was again considered and Members expressed disappointment regarding the increase in the budget required by BCPP from the various Pension Funds involved.

Resolved -

That the Minutes of the meeting of 18 July 2019, together with the highlights provided by the Chairman of the Pension Board, be noted.

144. Pension Board - Annual Report 2018/19

Considered -

The report of the Treasurer requesting Members to note the Annual Report of the Pension Board. The Chairman of the Pension Board noted that the draft Annual Report for 2018/19 had been presented to the 18 July 2019 meeting of the Pension Board where it was approved. He also noted that the Independent Observer and Treasurer to the NYPF had been present at that meeting and were satisfied with the contents.

Resolved -

That the Annual Report of the Pension Board 2018/19 be noted.

145. Pension Board - Terms of Reference

Considered -

The report of the Treasurer providing Pension Fund Committee Members with details of a recent review of the Pension Board's Terms of Reference.

The Pension Board Chairman noted that, at its meeting on 24 January 2018, the Pension Board agreed that the current Terms of Reference were no longer fit for purpose, given changes to the nature of the LGPS, particularly around the introduction of pooling arrangements.

At its meeting held on 18 July 2019, assisted by the Treasurer and Independent Observer of the NYPF, Board Members undertook a review of the Terms of Reference. As a result an additional bullet point was added to section 8 - remit of the Board, of the Terms of Reference.

The additional bullet point was as follows:-

"Reviewing the governance of the new pooling arrangements, to assist in ensuring compliance, effective and efficient reporting, and the monitoring of investment management."

The remainder of the Terms of Reference were agreed to continue as stated.

Resolved -

That the changes to the Terms of Reference of the Pension Board be noted.

The meeting concluded at 2.55 pm.

SL/JR

DRAFT