

CLWYD PENSION FUND COMMITTEE
5 SEPTEMBER 2018

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold at 10.00am on Wednesday, 5 September 2018.

PRESENT: Councillor Dave Hughes (Chairman)

Councillors: Ted Palmer, Ralph Small, Haydn Bateman, Billy Mullin.

CO-OPTED MEMBERS: Councillor Nigel Williams, Councillor Huw Llewelyn Jones (Denbighshire County Council), Councillor Andrew Rutherford (Other Scheme Employer Representative), Mr Steve Hibbert (Scheme Member Representative)

ALSO PRESENT (AS OBSERVERS): Mr Matthew Edwards (Wales Audit Office) – left after item 17, Mr Mike Whitely (Wales Audit Office) – left after item 17.

APOLOGIES: Helen Burnham (Pension Administration Manager)

IN ATTENDANCE:

Advisory Panel comprising: Colin Everett (Chief Executive), Philip Latham (Clwyd Pension Fund Manager), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Advisor – Aon Hewitt), Kieran Harkin (Fund Investment Consultant – JLT Group), Paul Middleman (Fund Actuary – Mercer).

Officers/Advisers comprising: Debbie Fielder (Pensions Finance Manager), Sandra Beales (Principal Pension Officer) – joined for the administration items, Kerry Robinson (Employer Liaison Team), – for the final administration item, Nick Buckland (Fund Investment Consultant – JLT Group), and Nikki Gemmell (Associate – Mercer - taking minutes).

The Chairman welcomed Matthew Edwards and Mike Whitely from the Wales Audit Office (the “WAO”) who were there to present the audit report to the Committee (item 17 below).

15. **DECLARATIONS OF INTEREST (including conflicts of interest)**

No new conflicts were declared.

16. **MINUTES**

The minutes of the meeting of the Committee held on 13 June 2018 were submitted. The Chair thanked Miss Fellowes on the continued high standard of the minutes.

RESOLVED:

It was agreed the minutes could be received, approved and signed by the Chairman.

17. **CLWYD PENSION FUND ACCOUNTS 2017/18**

Mr Ferguson introduced this item of the agenda and noted the actions for the Committee. The Fund accounts are now required to be reported separately from the County Council accounts. Approval is needed from the members of the Committee for the final Fund accounts.

The majority of the WAO Audit has been completed but Mr Ferguson noted that it still needs to be signed off. The formal audit opinion is included within the recommendations and key findings. Overall, the WAO Audit Report is very positive and all issues from last year have now been resolved.

The WAO confirmed that the Fund accounts present a true and fair view and thanked the pension fund team for all their assistance. They presented the report and noted the following key points:

- The Fund accounts are now a standalone document and were completed two weeks earlier this year. This is a step towards the 31 May deadline that will apply from 2021.
- Page 54 noted that an audit team member has relatives in the pension fund but that this risk has been mitigated.
- Appendix 1 - the Letter of Representation is not seeking any additional representations from the Committee.
- Appendix 2 is the proposed auditors report. The opinion will be issued following committee approval.
- Appendix 3 shows the corrections made to the draft financial statements.

Cllr Llewelyn Jones wanted clarification about the agency services in note 21 on page 43.

Mrs Fielder confirmed they are Compensatory Added Years (CAY) which are recharged on a £ for £ basis to the employers.

The Committee agreed the recommendations and Mr Everett thanked all of the parties involved for their work in the closure of the accounts.

RESOLVED:

- (a) That Members consider the WAO Audit of Financial Statements Report and Management Letter.
- (b) That Members approve the final version of the Statement of Accounts for the 2017/18 financial year.
- (c) That Members approve the Letter of Representation to the Clwyd Pension Fund.

18. **CLWYD PENSION FUND DRAFT ANNUAL REPORT 2017/18**

Mrs Fielder outlined the items in the Annual Report which have been completed to date. As usual the annual report will be completed before the Annual General Meeting with employers and Members are asked to delegate finalisation to the Clwyd Pension Fund Manager. The Annual Report includes all the Fund's statutory and best practise documents which have been brought up to date.

The Fund's Investment Consultant and Actuary presented their annual reports to the Committee.

As a result, Members raised some questions.

Mr Hibbert queried why the investment management fees have almost trebled but the assets have not moved in the same way. Mrs Fielder said that this is mainly due to increased transparency as the core managers are showing all their fees more transparently. More private market managers are providing information despite the fact that they are not signed up to the LGPS Code of Transparency yet and over time this will develop. She noted that they do discuss fees with managers and minimise them where possible.

Cllr Bateman asked what the difference was between a consultant and an advisor following page 79. Mrs Fielder responded that Mrs McWilliam (Aon Hewitt) is a governance advisor whereas JLT and Mercer are consultants.

Cllr Bateman also asked whether the investment management fees will reduce with pooling. Mr Latham said that there are some small reduction in fees.

Mr Hibbert asked whether a graph could be provided showing the cash flows going into and out of the Fund. He also said it would be useful if the reporting performance shows the value of the investments as well as the percentage change (i.e. an 8% jump on a part of the portfolio may look good but it might only reflect a small proportion of the Fund). Mr Buckland confirmed that this was a valid point and would be considered for the next Annual Report.

Mr Everett commented that it has been a positive year with substantial team effort. The funding review is imminent to consider employer contributions from 2020 and there will be a number of challenges in the administration strategy. Nevertheless it has been a successful year in a challenging period that has seen much of reform.

All members of the Committee agreed the recommendations. External Audit left the meeting at this point.

The Chairman thanked Mrs Fielder for all the hard work on the Annual Report.

RESOLVED:

That Members noted and commented on the draft unaudited sections of the Annual Report and delegated finalisation to the Clwyd Pension Fund Manager.

19. POOLING INVESTMENT IN WALES

The Chairman stated that there has not been a Joint Governance Committee since the last Committee. The Chairman passed over this item of the agenda to Mr Latham who emphasised the Wales Pension Partnership (WPP) is making good progress. The investment platform is in place and agenda item 10 relates to the first transition of assets. However, there are governance and investment matters that will be considered at future JGC's or by individual authorities.

A reference was made to the letter from the Minister for Local Government. Mr Hibbert commented on the increasing reporting costs for the WPP and an increased reliance on advisors and consultants when the objective is aiming to reduce costs. Mr Latham said that

the reality is that there will be costs for the pooling in Wales but he is confident that WPP will be one of the best performing pools over time in terms of value for money.

Cllr Rutherford asked whether the reporting costs associated with pooling will be reimbursed and how these costs will be reported. Mrs Fielder responded that the running of the WPP is part of the overall operational costs and would be shared by all Funds as part of the costs recharged through the platform.

Mrs McWilliam also said that she had attended the Scheme Advisory Board meeting on Monday and they were going to write to all the pools to determine whether they intend to have a scheme member representative and the reasons if they do not.

Mrs McWilliam explained that there was a BBC article on Monday about the Fund investing in fracking. The article implied that Welsh funds have direct fracking investments and highlighted the Paris Agreement, Environment (Wales) Act and the Well-being of Future Generations Act. Mrs McWilliam queried whether this was an accurate statement. Cllr Llewelyn Jones said it showed that the Fund has £10 million invested in fracking investments.

Mr Everett confirmed that the Fund is not undertaking any unlawful activities and that the Welsh Government is looking into the policy now. Mr Harkin emphasised that there was no direct investment here and the actual investment exposure to fracking companies was £7.6 million in 2016 (0.4% of the fund assets at that time). In most cases it may be that the company could have an element of fracking investment within their business structure and so they are not actually exposed to a fracking company (although it is a small amount in relation to the size of the Fund).

RESOLVED:

The Committee noted the report and discussed the progress being made by the Wales Pension Partnership.

20. GOVERNANCE UPDATE

Mr Latham led this item of the agenda and said that the Fund were unsuccessful in appointing candidates to fill the advertised posts. He is working with HR to identify a solution. Mr Everett commented that all is being done but it takes time to identify candidates of suitable quality. It was also noted that succession planning was being discussed right across the Council so it is not just a pension fund issue.

Mrs McWilliam discussed the Aon Administering Authority Survey on organisational and pay structures within the LGPS. It was completed by 31 Administering Authorities. She added that it is a difficult survey to carry out objectively as all the administering authorities work in different ways (i.e. the Clwyd Fund have substantial Private Market investments whereas other LGPS funds may not). Mrs McWilliam said that generally the majority that responded claimed that they were struggling and looking at resources/structure. Also around 20% pay a Market Supplement/Premium which is consistent with previous discussions on recruitment policy

Mr Latham noted that there is a responsible investment seminar to be held in Cardiff for members of the WPP and for the members of the Committee to let Mrs Fielder know if they can attend.

Mr Latham also asked members of the Committee for approval on changes to the Conflicts of Interest policy in Appendix 9.

RESOLVED:

- (a) The Committee considered the update and provided comments
- (b) The Committee approved the proposed changes to the Conflicts of Interest Policy.

21. **LGPS UPDATE**

Ms Gemmell gave a brief update regarding the current issues affecting the Local Government Pension Scheme. Ms Gemmell mentioned that The Pensions Regulator will be visiting 10 Funds to assess the data quality and seek improvements. No warnings will be given and Fund's need to be on the lookout for a communication from TPR. She also confirmed that HMRC will not tax any Exit Credits paid by funds when an employer leaves the Fund in surplus. It was noted that the Section 13 report from GAD is expected during September 2018 and that the Fund had a clean bill of health.

RESOLVED:

The Committee members noted the report and made themselves aware of the various current issues affecting the LGPS; some of which are significant to the operation of the Fund.

22. **PENSION ADMINISTRATION/COMMUNICATION UPDATE**

Mrs Beales joined the meeting at this item of the agenda and gave an administration update. She said that there has been good news regarding the Member Self Service as 1,000 members have signed up for this service since the last Committee meeting as a result of the communication officer promoting the positive benefits of self-service.

Mrs Beales added the following key points;

- The additional payroll functionality
- The annual benefit statements have been sent to the majority of members, with only a few outstanding.
- Changes in Regulation and recent High Court judgements have caused additional work for the administration team.
- Key performance indicators that are measured on a monthly basis have failed to meet agreed standards this month. Also, the Fund has not managed to deliver its legal obligations. This is due to resourcing and management issues which the administration team are looking at in order to improve performance.

Mr Everett confirmed that decisions are to be made promptly with regards to the resourcing for the Fund; however the Fund needs to be cautious that they don't become over resourced to deal with short term pressures.

Mr Hibbert suggested that it would be useful to look longer term into the future and create a structure and systems now, in order to contribute to a longer term solution. He believed that there should be a resilient structure put in place. Mr Everett confirmed that they need to future proof all aspects of service delivery including the Pension Fund. This is addressed in the business planning and overall governance of the Fund.

Cllr Palmer asked about the reference to trivial commutations in the recommendations. Mrs Beales explained the background to this. Mr Latham recommended to Committee that this project be deferred to 2019/20.

RESOLVED:

- (a) The Committee considered the update and provided comments
- (b) The Committee agreed that additional payroll functionality which was intended to commence quarter 1 of 2018/19 is extended to quarter 3 of 2018/19.
- (c) The Committee agreed that the Trivial Commutation project which was intended to commence in quarter 2 of 2018/19 should be delayed until quarter 1 of 2019/20

23. **ACTIVE GLOBAL EQUITY TRANSITION**

Mr Latham explained that the WPP has agreed two global equity mandates to the platform that the Fund can invest in. After consultation with the Fund's consultants, it is recommended that the Fund's allocation is transferred to the Global Opportunities Fund and that this will come at a lower cost; the report gives further information regarding this decision made.

Mr Hibbert declared that he was pleased with the first proposal that the Committee has seen as it is a win-win because they will be saving money also. However, he asked what would happen if the next proposal is a lose-lose situation? Mr Latham said if assets were put at risk or underperforming then he would bring this to the Committee's attention.

Mrs McWilliam added that MHCLG made it clear that all of the assets should be pooled despite the fact that some funds would lose out, on the basis it will be a gain overall. There is no guarantee of that however. She said that MHCLG are currently looking to rewrite the pooling guidance.

Mr Harkin stated that the pool shouldn't dictate the Fund's investment strategy. The pool should provide enough options for the Fund. The key thing is that the pool needs to be able to deliver the overall strategy as this is the biggest contributor to returns and risk.

Mr Hibbert said that the Fund should always weigh up the advantages and disadvantages of moving money into the pool. This particular case was a good decision for the Fund but it would be difficult for the Committee to agree to an investment with the pool that will provide a lower expected return for a higher cost. Mr Everett commented that this needs to be done on a case by case basis.

RESOLVED:

- a) The Committee ratified the decision to invest in the Wales Pension Partnership Global Equity Opportunities Fund which will be funded from the current active global equity mandate with Investec Asset Management.
- (b) In accordance with the reserved matter requirements of the IAA regarding the timing of the transition, the Committee agreed that these assets should be transitioned in the coming months having regard to the advice of a specialist transition manager.
- (c) The Committee delegated the specific timing of the transition to the Clwyd Fund officers on the Officer Working Group (OWG) after considering advice from that specialist transition manager.

24. INVESTMENT AND FUNDING UPDATE

Mrs Fielder gave a brief update on this item of the agenda highlighting that the business plan has been progressing well and that the Funding Strategy Statement is now out for consultation.. In relation to investments, the Fund is still cashflow positive and has made four new investments under delegations.

RESOLVED:

The Committee considered and noted the update for delegated responsibilities and provided comments

25. ECONOMIC AND MARKET UPDATE

Mr Harkin gave the Committee an economic and market update over the last quarter. Page 247 reflects a snapshot of the market statistics over a 3 month, 1 year and 3 year period where there has been a significant amount of positive numbers from growth assets.

Mr Harkin highlighted the following key points;

- Equities have had a positive quarter again despite the daily volatility,
- September has already been volatile and gains are still tilted towards growth assets,
- UK and North American equities are strong,
- Emerging and frontier markets have been weaker with financial pressures from China, Turkey and Argentina,
- Developed markets are on an upward trend, however emerging markets are now tailing off which is different to 2017 when both performed consistently well,
- The bond assets reflect a series of negative returns with rising yields and cheaper assets
- Sterling is under a lot of pressure due to the Brexit negotiations however UK equity returns are strong because the larger businesses in the UK are multinationals; therefore converting to sterling is boosting their profits.

Cllr Llewelyn Jones asked whether the Fund has any exposure to South America. Mr Harkin confirmed that we do through emerging market equity.

RESOLVED:

- (a) To note and discuss the Economic and Market Update 30 June 2018.
- (b) To note how the information in the report effectively “sets the scene” for what the Committee should expect to see in the Investment Strategy and Manager Summary report in terms of the performance of the Fund’s asset portfolio.

26. INVESTMENT STRATEGY AND MANAGER SUMMARY

Mr Harkin noted that there were some areas of disappointment in returns in the quarter ending of June 2018. However, since the end of March the Fund has had a £70 million increase. The Fund’s total market value was £1,848 million at the end of June and £1,882 million at the end of July. The Fund has performed well in developed market equities however credit assets struggled due to the rising yield environment.

The report outlined the performance summary to 30 June 2018. The total fund return over the quarter (3.2%) and over the 3 year period (9.9%) was ahead of target. However, Stone Harbour underperformed over the 3 month period and discussions around this are ongoing with the manager. The return of 15.2% in hedge funds over 3 months is an anomaly because it included sales proceeds of legacy assets.

RESOLVED:

- (a) To note and discuss the investment strategy and manager performance in the Investment Strategy and Manager Summary 30 June 2018.
- (b) The Committee considered the information in the Economic and Market Update report to provide context in addition to the information contained in this report.

27. FUNDING AND FLIGHTPATH UPDATE

Mr Middleman gave the Committee a funding update and confirmed that at the end of March the funding level was 89% whereas at the end of July it was 92% and remains broadly the same now which is good news for the Fund.

He explained that Mercer is currently working on an Interim Funding Review for the Fund covering modelling on what inflation and investment returns (above inflation) are expected to do in the future given the current political and economic uncertainty. The outlook (if lower) would manifest itself by a reduced funding level. The outcome of the interim funding review will be reported at the next Committee and will be presented at the AJCM.

Mr Middleman then summarised the activity on the Flightpath strategy. Again no yield triggers have been breached since the interest rate triggers were re-structured. However market volatility may lead to some triggers levels’ getting closer to being breached and this is closely monitored by Insight.

The Flightpath Strategy has performed well and along with closing out the relative value trade means that there is an opportunity to release some collateral, possibly up to £100 million to invest elsewhere or be made to work harder in the Insight mandate. It was noted that

this doesn't change the risk position or exposures in the flightpath strategy. The options will be discussed in the coming weeks and be reported back to Committee.

Mr Middleman's final update covered the new dynamic equity strategy that was implemented on 24 May 2018. This protection will follow the movements of the markets on a rolling 12 months period. The dynamic protection strategy will currently protect the Fund if equity markets exposure in the Insight vehicle falls by 15% on average. The reduced risk exposure will be taken into account when looking at employer deficit contributions which may mean a reduction could be passed on (all other things equal) which is the primary reason for implementing the protection.

The Chairman added that it is positive to hear of the ongoing success of the Flightpath strategy.

RESOLVED:

- a) The Committee noted the updated funding and hedging position for the Fund and the progress being made on the various elements of the Risk Management Framework.
- (b) The Committee noted the LDI strategy is in the process of being restructured in order to crystallise the positive mark-to-market gain.
- (c) The Committee noted that the Officers are working with their advisors in order to identify possible areas to invest the £100m cash that may be released due to the overall positive performance of the flightpath framework.

28. **LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985 – TO CONSIDER THE EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED:

That the press and public be excluded for the remainder of the meeting for the following item by virtue of exempt information under paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

29. **EMPLOYER CARE PAY ISSUE**

Mr Latham presented a report on an issue affecting payments to Clwyd Pension Fund members. The report included the agreed principles on how the issue will be resolved and communicated.

RESOLVED:

- (a) The Committee noted this report.
- (b) The Committee agreed that the ongoing management of, and any decisions in relation to this matter for Clwyd Pension Fund are delegated to the Clwyd Pension Fund Manager.

The Chairman thanked everyone for their attendance and updates at the Committee meeting and noted that there is an AJCM meeting on 6th November which he hoped the Committee members would attend. It was noted that the next Committee meeting is on 28th November.

The meeting finished at 1:00pm.

.....

Chairman