

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

Copies of all documents considered are in the Minute Book

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.

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.

Aberdeen Standard Investment - GARS

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

DRAFT