

NORTHUMBERLAND COUNTY COUNCIL

PENSION FUND PANEL

At a meeting of the **Pension Fund Panel** held at County Hall, Morpeth on Friday, 23 November 2018 at 9.30 a.m.

PRESENT

Councillor J.G. Watson (nos 25 - 31(1))
(Chair, in the Chair)

MEMBERS

Bawn, D.
Dunn, L.

Kennedy, D. (nos 28(6) - 34)
Swithenbank, I.C.F.

TRADE UNION REPRESENTATIVES

Culling, A.

OBSERVER REPRESENTATIVES

Adams, Ms. J.H.
Dick, Ms. S.

Employer Representative
Employee / Pensioner
Representative

PENSION FUND PANEL ADVISER MEMBER

Ms. S. Greenwood

Mercer Ltd.

OFFICERS IN ATTENDANCE

Mrs. C. Gorman

Principal Accountant (Pensions) -
Project Officer

Mr. C. Johnson

Senior Accountant (Pensions)

Mr. A. Lister

Principal Accountant (Pensions)

Ms. N. Turnbull

Democratic Services Officer

ALSO PRESENT AS OBSERVERS

J.P. Clark

NCC Local Pension Board Member

G.F. Moore

Chair of NCC Local Pension Board

Cllr B Pidcock (no.s 25 - 32)

NCC Local Pension Board Member

25. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Robinson and I Storey (Trade Union Representative).

26. MINUTES

RESOLVED that the minutes of the meeting of the Pension Fund Panel, held on Friday 5 October 2018, as circulated, be confirmed as a true record and signed by the Chair.

27. DISCLOSURE OF MEMBERS' INTERESTS

The Local Government Pension Scheme is a national pension scheme set by central Government and the terms and conditions apply equally to all Scheme members. Panel members and attendees cannot influence the terms and conditions of the Scheme that apply to them, and they do not set the regulatory framework which governs it.

Membership of the Scheme does not represent a personal interest for Panel members, observers or officers in attendance.

28. REPORTS OF THE SERVICE DIRECTOR - FINANCE

The Panel was invited to consider the following reports, enclosed as Appendix A:-

(1) Northumberland County Council Pension Fund's Procedure for Reporting Breaches of the Law

The Panel received a report which requested that the Fund's 'Procedure for Reporting Breaches of the Law for the LGPS administered by Northumberland County Council', be updated.

The Principal Accountant (Pensions) - Project Officer explained that the first Procedure for Reporting Breaches of the Law had been approved by the Panel in September 2015, with an update in February 2016. The majority of the updates requested at this meeting were of a minor nature to reflect the move to a shared pensions administration service with Tyne and Wear Pension Fund (TWPF) from January 2018. The Procedure would also now apply to all employees of South Tyneside Council who were involved with the administration of the LGPS on behalf of NCCPF.

RESOLVED that the updated NCCPF's Procedure for Reporting Breaches of the Law, attached as Appendix 1 to the report, be adopted.

(2) The Pensions Regulator's annual return and survey

The Panel received information about the Pensions Regulator's 2018 Annual Scheme Return, and the 2018 annual Governance and Administration Survey.

The Principal Accountant (Pensions) - Project Officer confirmed that the 2018 Scheme Return had been submitted before the 6 November 2018 deadline. Whilst the NCC LGPS Local Pension Board (LPB) had received a copy at its last meeting in November 2018, it would be considered in detail at the Board's next meeting on 10 December 2018.

Officers were in the process of working with colleagues at TWPF regarding NCC's response to the Governance and Administration Survey 2018. Although completion of the Survey was not compulsory, and an extension could be requested if additional time was required, the expectation was that the Survey would be submitted prior to the 30 November 2018 deadline. Officers would be submitting a single response on behalf of the Scheme Manager and the Local Pension Board.

RESOLVED that the report be accepted.

(3) Training needs analysis

Members of the Panel were reminded of the requirement to complete a formal training needs analysis annually, which would assess the collective knowledge and skills of Panel members with the aim of identifying gaps in knowledge and directing the Fund's Training Plan for the following twelve months.

The Senior Accountant (Pensions) explained that the process would again involve a questionnaire based around CIPFA's Knowledge and Skills Framework and requested that all Panel and Board members complete and return questionnaires to him by 7 December 2018. A full analysis of the results would be brought to the February 2019 Panel meeting.

RESOLVED that

- (a) The report be accepted.
- (b) Each Panel member to complete a questionnaire as part of the training needs analysis procedure and return to the Senior Accountant (Pensions) by 7 December 2018.

(4) October 2018 Budget

The Principal Accountant (Pensions) - Project Officer provided information to members about the 29 October 2018 Budget, and proposed changes of relevance to LGPS administering authorities, including:

- A reduction in the SCAPE discount rate from 3% to 2.4%

- £5 million of Government funding to develop the Pensions Dashboard
- Adoption of CPI-H as the measure of inflation which incorporates housing costs at some (undefined) future date.

The Panel discussed the potential impact of the proposed changes on employer contribution rates.

RESOLVED that the report be accepted.

(5) Recent news stories about LGPS administering authorities

Information and comment was provided on recent news stories regarding LGPS administering authorities, including:

- A fraud case involving theft of pension fund assets which highlighted the need for robust internal controls and separation of duties.
- Review of a LGPS pool's manager selection process to determine whether a Fund should transfer money to the pool or recommit direct with its current manager.
- Self-reporting of two administering authorities for failure to issue its annual benefit statements by the deadline, due to the failure of participating employers to provide timely and accurate data.

RESOLVED that the report be accepted.

(6) MHCLG statistical release 2017/18

The Panel received information about the MHCLG statistical release on LGPS funds in England and Wales in 2017/18, and compared NCC Pension Fund's results with those of other LGPS funds.

The Senior Accountant (Pensions) highlighted the following key points from the report:

- income from employer contributions had increased by 27.7% in the LGPS overall compared with the previous year, which had been expected due to 2017/18 being the first year of new employer contribution rates payable following the 2016 triennial valuation of funds. NCCPF had experienced a lower rate of increase (9.6%), in part due to a number of employers at other funds making upfront, three-year contribution payments.
- subsequently, the market value of the NCC Pension Fund in the year to 31 March 2018 had increased 2.8%, which was a smaller increase than the average LGPS fund (4.7%), again, in part, due to the reasons outlined above.
- otherwise, NCC's results largely reflected the national picture.

The NCC LPB Chair praised officers for the level of analysis carried out on the statistical release.

RESOLVED that the report be accepted.

(7) PIRC Local Authority Performance Analytics

The PIRC Local Authority Performance Analytics annual reports for 2016/17 and 2017/18 were received by the Panel.

The Principal Accountant (Pensions) - Project Officer commented that, although NCCPF data was not included in PIRC's analysis, the performance data contained in the documents provided an excellent source of background information on the collective approach of all UK LGPS funds to asset allocation. This would be useful to the Panel when the next strategy review of NCCPF was undertaken.

A brief analysis of 2017/18 performance and changes in asset allocation was discussed, as well as the impact of frequent 'churning' of investment managers on costs and Fund performance.

RESOLVED that the report be accepted.

(8) NCC LGPS: the Pensions Regulator's Code compliance checklist

The Panel received information about NCC Pension Fund's third annual assessment against the standards set out in the Pension Regulator's Code of Practice number 14.

The Principal Accountant (Pensions) - Project Officer explained that the assessment had been due at the end of 2017/18 but had been deferred to allow for a 'bedding in' period following the implementation of the shared pensions administration service with TWPF.

She explained that, although the draft compliance report from Aon had recently been received, a full analysis of the report was still to take place. A number of areas where the Fund was marked 'partially compliant', including the provision of Board member training on appointment, were discussed by the Panel.

RESOLVED that:

- (a) The information be noted.
- (b) The NCC LGPS Local Pension Board be requested to review the Pension Regulator's Code of Practice number 14 checklist in detail at its meeting on 10 December 2018, and report back to the Panel.

(9) Outcomes of the November 2018 meeting of the NCC LGPS Local Pension Board

Mr. Moore, the Independent Chair of the NCC LGPS Local Pension Board, gave a verbal update on the Board's recommendations following its meeting held on 8 November 2018, which included the Scheme manager ensuring that the triennial valuation was appropriately reflected in the Fund's risk register. The Board had gained assurance that the Fund had complied with a number of statutory deadlines, including the Pensions Regulator's annual Scheme Return, and established a general principle that any breach as a result of information outstanding from individual Scheme members would not constitute a reportable breach (of material significance to the Regulator).

RESOLVED that

- (a) The recommendations from the NCC LGPS Local Pension Board meeting held on 8 November as outlined above, be accepted; and
- (b) The assurances gained by the Board at that meeting be noted.

(10) Action Plan 2018 for NCC Pension Fund: quarterly monitoring

The Panel received a quarterly report to monitor progress against the NCCPF Action Plan 2018.

The Principal Accountant (Pensions) - Project Officer confirmed that progress was in line with the plan although a few items which had been due to be considered at this meeting, would instead be deferred to the February 2019 Panel meeting.

RESOLVED that the report be accepted.

(11) Recording breaches: progress and quarterly monitoring report

The report provided information about breaches of the law which had occurred in and before the quarter to 30 September 2018.

RESOLVED that

- (a) The information be noted, and
- (b) The NCC LGPS Local Pension Board be requested to consider breaches of the law for the quarter to 30 September 2018 at its next meeting and report back to the Panel.

(12) Key Performance Indicators (KPIs) for LGPS administration

Information was provided about the Fund's KPIs in the quarter to 30 September 2018.

RESOLVED that

- (a) The information be noted, and
- (b) The LGPS Local Pension Board be requested to consider key performance indicators for LGPS administration for the quarter to 30 September 2018 at its next meeting and report back to the Panel.

(13) Tyne and Wear Pension Fund's quarterly regulatory report

The Panel received a copy of TWPF's quarterly regulatory reports, which were provided to South Tyneside Council's Pensions Committee in September and November 2018, to keep members up to date with relevant LGPS regulatory changes.

The Principal Accountant (Pensions) - Project Officer referred to the Scheme Advisory Board's review of options for separation of a host authority from its pension fund.

RESOLVED that the report be accepted.

(14) Fund performance and total Fund value

Information was provided to the Panel about the Fund performance in the quarter to 30 September 2018 and the total Fund value at that date. The Panel noted that equity markets had fallen in the period following 30 September 2018 and the likely impact this would have had on Fund performance and value in the quarter to 31 December 2018.

RESOLVED that the report be accepted.

29. EXCLUSION OF PRESS AND PUBLIC

RESOLVED that

- (a) under Section 100A (4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following item on the Agenda as they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A of the 1972 Act and as indicated below:

Agenda Items	Paragraph of Part I of Schedule 12A
7 - 9	3
	Information relating to the financial or business affairs of a particular person

(including the Authority holding that information).

AND

- (b) the public interest in seeking this exemption outweighs the public interest in disclosure because:-
 - (i) it contains information that, if in the public domain, could affect the preferential rates the Fund is charged;
 - (ii) because the information would not be provided at future meetings if it were considered in public; and
 - (iii) because the industry standard is to keep this information confidential.

30. URGENT BUSINESS

The Panel considered an additional report from the Service Director - Finance which the Chair had agreed should be considered as a matter of urgency.

Amendments to NCCPF's Funding Strategy Statement

The Principal Accountant (Pensions) - Project Officer requested that provision be made to update NCCPF's Funding Strategy Statement to protect the Fund, and all of its employers, against particular circumstances that could potentially arise in the future following a change to the LGPS Regulations allowing the repayment of a surplus to an employer on exit. A report would be brought to the next meeting of the Panel to provide detail of the changes that had been made.

RESOLVED that:

- (a) Delegated authority be given to the Service Director - Finance, in consultation with the Chair and Vice-Chair of the Pension Fund Panel, to amend NCCPF's Funding Strategy Statement, consult with NCCPF's participating employers and make any further amendments required as a result of the consultation; and
- (b) The amended NCCPF Funding Strategy Statement be brought for information to the meeting of the Pension Fund Panel scheduled for 22 February 2019.

31. REPORTS OF THE SERVICE DIRECTOR - FINANCE

The Panel considered the following reports, which were not reproduced, were coloured pink and marked "Not For Publication", a copy of which is filed with the signed minutes as Appendix B:-

(1) Current estimated funding position for Northumberland County Council Pension Fund

The report presented the latest quarterly update on the actuarial funding position for the Pension Fund as a whole.

The Panel noted the estimated funding level stated in the report as at 30 September 2018, and also the decrease in equity asset values in the weeks following the valuation which would have adversely impacted the funding level.

The Principal Accountant (Pensions) - Project Officer referred to an email from Aon, the Fund actuary, which referred to the uncertainty of Brexit and issues to consider when looking at prudence, discount rates and employer contribution rates ahead of the 2019 valuation. One further estimated funding position would be provided to the Panel, as at 31 December 2018, which would be last estimate of this kind the Panel would receive for a year.

Panel members were reminded of the annual employer event scheduled to take place at NCC on 22 January 2019 and encouraged to attend.

RESOLVED that the report be accepted.

Councillor Watson left the meeting and Councillor Kennedy, Vice-Chair, chaired the remainder of the meeting.

(2) Section 13 Report

Information was provided to the Panel about the Section 13 Report, published in September 2018, which reviewed the 31 March 2016 actuarial valuations of LGPS funds in England and Wales; and measured progress since the earlier valuations at 31 March 2013.

The Panel noted that there were no 'red or amber flags' against NCCPF in the 2016 review, as well as the Fund's improved ranking of its funding level (on a like for like basis) from the previous review in 2013.

RESOLVED that the report be accepted.

(3) Panel decision to allocate 5% of Fund value to cash

The Panel received information about volatility in equity markets following the Panel meeting held on 5 October 2018 when officers had worked towards, but did not then execute, the decision to allocate 5% of the Fund to cash. The Panel was requested to reconsider that decision.

Members and officers reflected on the decision to make a tactical 5% cash allocation from equities into a cash fund managed by Legal and General (LGIM), and the volatility of equity markets since that decision had been made.

The Principal Accountant (Pensions) - Project Officer explained that, despite quick action from all parties involved following the decision, it had taken almost four weeks to reach the point where the first trade was about to be implemented. She commented that the Fund, as a long term investor, is invested in low cost and efficient investment vehicles with LGIM, with pre-set weekly dealing dates and a requirement for four working days' written notice to trade. Such investment vehicles are eminently suitable for long term investors but do not facilitate quick trading.

The Vice-Chair expressed his appreciation to officers, Councillor Swithenbank and others who had monitored the equity markets daily following the decision and communicated quickly when markets fell.

The Chair of the LGPS Board commented that the LGPS governance arrangements did not easily allow for a fast decision making process and therefore it was difficult for investment decisions to be implemented at the optimum time.

RESOLVED that the decision be deferred until later in the meeting due to time constraints.

(4) NCCPF's exposure to UK equity markets

Information was provided about NCCPF's current allocation to UK equities and the Panel was requested to consider whether steps should be taken to reduce the allocation.

The Panel agreed that there was no strong rationale to maintain the current UK bias and that it would be beneficial to implement a staged reduction over a period of time.

RESOLVED that the decision be deferred until later in the meeting due to time constraints.

(5) Wellington: changes to Multi Sector Credit fund

The Panel received a report to update them on the changes to the terms of the investment in the Wellington Multi Sector Credit fund, which would take effect from 1 January 2019 but were not likely to have an impact on NCCPF's investment in the fund.

RESOLVED that the report be accepted.

(6) Border to Coast Pensions Partnership (BCPP) pooling arrangement

The Panel received an update on progress made by BCPP Ltd to date, and the implications for NCCPF.

Members were reminded about an informal Panel meeting to be held on 6 December 2018 where training and information would be provided by BCPP to inform members of potential future investment opportunities with BCPP Ltd.

RESOLVED that the report be accepted.

(7) Review of PIRC's appointment

The Panel was requested to review PIRC's appointment as the provider of share voting advice to NCCPF and consider the impact of terminating that appointment on the authority's regulatory obligation to exercise share voting rights.

It was noted that NCCPF's contract with PIRC was due for renewal in the near future and the positive effect of its work and engagement with companies was acknowledged.

The Principal Accountant (Pensions) explained the process that was required for Legal and General to follow PIRC's share voting recommendations for NCCPF's FTSE 350 effective shareholding, and the problems that could arise if this was not done correctly. The process was a manual, time consuming and risky exercise.

RESOLVED that:

- (a) PIRC's appointment to NCCPF be terminated.
- (b) Delegated authority be given to the Service Director - Finance, in consultation with the Chair and Vice-Chair of the Pension Fund Panel, to amend the Investment Strategy Statement, to reflect this.

(8) Transaction costs

Information was provided about the transaction costs incurred by the fund managers in the quarter to 30 September 2018.

RESOLVED that the report be accepted.

(9) Presentation at the meeting by Wellington

The Panel received information about Wellington, the Fund's active corporate bond manager, ahead of a presentation by Wellington later in the meeting.

RESOLVED that the report be accepted.

(10) Mercer's ratings of NCCPF's investment managers and currency hedging update

The report provided Panel members with Mercer's ratings of all of the Fund's investment managers and a quarterly update on currency hedging.

RESOLVED that the report be accepted.

(11) Portfolio Evaluation's report on NCCPF's private equity investments

The report provided performance information for NCCPF's private equity investments, calculated by Portfolio Evaluation, the Fund's independent performance measurement service provider.

RESOLVED that the report be accepted.

32. WELLINGTON

The Panel received a presentation from Paul Skinner, Nicola Staunton and Emma Thorne of Wellington. (A copy of the presentation is enclosed with the signed minutes).

RESOLVED that the presentation be received.

Councillor Pidcock left the meeting at this point.

33. REPORTS OF THE SERVICE - DIRECTOR FINANCE

(1) Panel decision to allocate 5% of Fund value to cash

The Panel discussed whether it remained appropriate for the above decision to be executed. It was agreed that officers would continue to monitor the FTSE All-World index and start the implementation process to move 5% of Fund assets into cash as soon as the index exceeded 600. Monitoring would continue until the trade was executed.

The allocation to cash was intended to be a short term tactical move to protect the Fund value at 31 March 2019. Therefore, it was acknowledged that there needed to be a cut-off date for the transaction to proceed and it was agreed that 31 January 2019 would be an appropriate cut-off point.

The Panel also debated whether there should be a proportionate reduction in equities across geographical markets as detailed in the proposal contained within Appendix 9, or whether the 5% reduction should come solely from UK equities.

It was agreed that as the Panel decision was tactical rather than strategic, the 5% reduction in equities would be applied to the Fund's equity holdings as per the proposals contained within Appendix 9.

RESOLVED that

- (a) the Panel decision made on 5 October 2018 to allocate up to 5% of Fund value to cash be ratified and implemented before the last Legal and General (LGIM) dealing date in January 2019 by the Service Director - Finance, in consultation with the Chair and Vice-Chair of the Pension Fund Panel, **only if** the FTSE All-World index (sterling, total return) exceeds 600;
- (b) the cash allocation (if implemented) be
 - i a short term tactical measure held until 31 March 2019 or shortly after;
 - ii held in LGIM's Sterling Liquidity cash fund;
 - iii funded by a reduction in the Fund's target allocation to equities from 60% to 55%, per the proposed asset allocation set out in **Appendix 9** to the report; and
 - iv implemented as soon as practical after the FTSE All-World index (sterling, total return) exceeds 600 and traded in two approximately equal tranches two weeks apart, **only if** the index remains above 600 immediately before each planned trade is instructed; and
- (c) should the planned allocation to cash be executed, the trigger point to reinvest the cash into equities be a drop of 10% or more in the FTSE All-World index from the first point of sale of equities.

(2) NCCPF's exposure to UK equity markets

The Panel agreed that given the current volatility, both politically with Brexit on the horizon and with the impending triennial valuation, the Fund's position in UK equity markets should be considered after 29 March 2019 as part of a full strategic review of the Fund.

RESOLVED that the allocation to equities be considered after 29 March 2019.

34. MERCER'S REPORTS ON INVESTMENT MANAGERS AND CURRENCY HEDGING UPDATE

Susan Greenwood gave a brief presentation on the Fund's investment managers as well as an update on the Fund currency hedged investments.

RESOLVED that the presentation be received.

CHAIR _____

DATE _____