

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**MUNICIPAL YEAR 2017-2018****PENSION FUND COMMITTEE****13TH NOVEMBER 2017****REPORT OF: THE GROUP DIRECTOR,
CORPORATE AND FRONTLINE
SERVICES**

	AGENDA ITEM NO.4
DELEGATED FUNCTIONS – UPDATE REPORT	

Author – Barrie Davies, Director of Financial Services (01443) 680559**1.0 PURPOSE OF REPORT**

- 1.1 This report sets out the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement, by the Group Director Corporate and Frontline Services.

2.0 RECOMMENDATIONS

- 2.1 It is recommended that the Committee :

2.1.1 Note the issues being addressed; and

2.1.2 Consider whether they wish to receive further detail on any issues.

3.0 BACKGROUND

- 3.1 The Group Director Corporate and Frontline Services (in their capacity as S151 officer) supported by an Investment and Administration Advisory Panel with appropriate officer, independent advisor and professional support, has delegated responsibility for all day to day operational matters.

- 3.2 The Panel advises on all aspects of the Pension Fund. It produces the annual report to Committee and is subject to Audit scrutiny. Areas upon which it gives advice are: -

- Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers.

- Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.
 - Agreeing the terms and payment of bulk transfers into and out of the Fund.
 - Agreeing Fund business plans and monitoring progress against them.
 - Maintain the Fund's Knowledge and Skills Policy for all Pension Fund Committee Members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.
 - Formulating responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.
 - Ensuring the Fund is managed and pension payments are made in compliance with the extant Local Government Pension Scheme Legislation, Her Majesty's Revenue & Customs requirements for UK registered pension schemes and all other relevant statutory provisions.
 - Ensuring robust risk management arrangements are in place.
 - Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non-statutory best practice guidance in relation to its management of the Fund.
 - Monitor investment performance.
 - Work with the Fund Actuary to determine the level of employer contributions required from each employer within the Fund, and ensure such contributions are received.
- 3.3 The Investment and Administration Advisory Panel meets on a quarterly basis, the most recent meeting taking place on the 2nd October 2017.
- 4.0 **INVESTMENT PERFORMANCE**
- 4.1 There is a quarterly reporting cycle for pension fund investment performance, with exception reporting agreed with fund managers where there are particular concerns. The most recent panel meeting considered investment performance to the end of June 2017.
- 4.2 During the quarter ended 30th June 2017, the overall value of the Fund increased from £2,983 million to £3,058 million.

- 4.3 A summary of performance relative to the Fund specific benchmark is shown below.

Total Portfolio

	2014		2015				2016				2017		3yr
Quarter	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Fund	1.9	4.5	6.7	-3.2	-2.3	6.0	1.4	5.3	7.9	1.8	5.1	2.8	13.0
B'mark	2.2	3.5	5.5	-3.6	-3.4	4.6	2.4	6.5	6.8	3.2	4.3	0.7	11.0
Relative	-0.2	1.0	1.1	0.4	1.2	1.3	-1.0	-1.1	1.1	-1.3	0.8	2.1	1.8

- 4.4 As shown, the rolling 3 year performance of the fund is 1.8% positive as compared to benchmark. For the last quarter, performance has been ahead of benchmark across all of our mandates with the sole exception of Blackrock UK High Alpha Equity mandate.
- 4.5 The Advisory Panel meets with Fund Managers on a cyclical basis and at the October meeting met with CBRE (Property) and Blackrock (UK Equity). The key issues reported with the mandates were:

CBRE - Property

- The value of the property portfolio increased from £166.2 million at 30th June 2016 to £173.2 million at 30th June 2017;
 - The total return delivered by the portfolio over the quarter to June 2017 was 2.7% which was above the benchmark of 2.2%;
 - The 1 year return (to June 2017) is 7.3%, behind the benchmark of 8.1%. The 3 year return however is positive at 9.8% against a benchmark of 6.6%.
- 4.6 The Panel did not identify any issues of significance which need to be followed up with CBRE. Whilst the since inception numbers continue to be adversely impacted by the legacy holdings, Quercus is now fully disinvested and Eurosiris is being unwound in line with the planned timescale.

Blackrock – UK Equities

- The value of the UK equity portfolio held by Blackrock increased from £121.8 million as at 30th June 2016 to £140.1 million as at the 30th June 2017;
- The total return delivered by the portfolio over the quarter to June 2017 was 1.0% which was below the benchmark of 1.4%;

- The 1 year return (to June 2017) is 14.8%, behind the benchmark of 18.1%. The 3 year return however is positive at 9.3% against a benchmark of 7.4%.
- 4.7 Blackrock's portfolio structure is very concentrated and heavily backing individual stocks so we are aware that performance will be very "lumpy" and there was nothing noted that caused any surprises.
- 4.8 The performance of Newton was discussed. Their latest 3 year performance is at 14.8% which is behind the benchmark of 15.5%. They are the Fund's only equity manager with negative performance over a 3 year time period.
- 4.9 Panel members met with Newton to express our concerns on the 8th August 2017. Newton were represented by Hanneke Smits (Chief Executive Officer), Jeff Monroe (Portfolio Manager) and James Mitchell (Investment Relationship Manager).
- 4.10 Newton's performance for the quarter ended 30th June was positive at 0.8% ahead of benchmark. However, monthly figures for the quarter ended 30th September are once again consistently lagging the benchmark. The Panel has arranged a further discussion with Newton to continue to explore underlying issues.
- 4.11 The investment strategy review has been fully scoped and is to be progressed now that the All Wales operator appointment process has been largely concluded.

MiFID II

- 4.12 The implementation of MiFID II (Markets in Financial Instruments Directive) reclassifies local and public authorities as retail investors from 3rd January 2018. Such a reclassification would severely limit both the financial instruments and providers available to authorities for pension fund purposes which could be both costly and reduce the potential for returns.
- 4.13 Local Authorities, in their role as Pension Fund Administering Authorities, have been advised to consider electing for a return to professional status ("opt up") in order to ensure they can access the full range of vehicles and managers to meet the needs of their investment strategy.
- 4.14 Accordingly the opt up process has been instigated for the Fund, with a number of managers already approving our request.

5.0 **ADMINISTRATION ISSUES**

- 5.1 Good progress continues to be made in dealing with GMP reconciliation requirements with high value liability items having been largely concluded. The Active Member category is to be reviewed next.
- 5.2 Compliance with Welsh language standards continues to be progressed and developed, including the website translation.
- 5.3 Arrangements have been made for the Fund Annual General Meeting to take place on the 28th November. Invitations have been sent out with a follow up proposed to be sent to the Chief Executive Officer (or equivalent) of employers to ensure that the attendance opportunity is maximised.
- 5.4 Annual Benefit Statements were issued prior to the 31st August statutory deadline for all employers in the Fund. Deferred Member statements were published to the Fund Member Self Serve Portal.
- 5.5 Eight 'Key Performance Service Standards' are monitored by the panel. It was noted that to the end of August 2017/18, two measures were behind their target. These related to preserved benefits being processed within 10 days (88.84% against target of 90%) and transfers in processed within 10 days (66.07% against target of 90%). Neither of these measures relate to nor impact on physical payment of benefits.
- 5.6 The second phase of Member Self Service (MSS) was launched in December 2016, to deferred members. The table below shows the current registrations.

	<u>Member Numbers</u>	<u>MSS Registrations</u>	<u>% of member Numbers *</u>
Deferred	24,016	2,597	17% (11%)
Pensioners	17,402	1,909	13% (11%)
Dependants	2,793	84	3% (3%)

* Figure in brackets represents the % of members registered at the previous reporting date.

- 5.7 The number of 'Internal Dispute Resolution Procedure' Appeals in progress remains extremely low, with no obvious trends to report.
- 5.8 The new General Data Protection Regulations (GDPR) take effect from 28th May 2017, officers are reviewing and implementing requirements including :
- Map data flows / risk
 - Determine grounds for processing data
 - Identify a Data Protection Officer

- Reassess how the Fund engages with membership
- Update Policies and Procedures
- Review third party agreements

6.0 PENSION BOARD

- 6.1 The Pension Board met on the 12th September 2017 and welcomed Mr David Francis (Coleg y Cymoedd) as a replacement employer representative.
- 6.2 There are no issues which the Board require to be brought to the attention of the Committee.
- 6.3 Pension Board meeting agendas and minutes are published on the Fund website in accordance with the Pension Regulator's requirements.
- 6.4 The next Pension Board is scheduled for 12th December 2017.

7.0 OTHER ISSUES

- 7.1 The Panel reviewed the skills and knowledge framework and noted the updates.
- 7.2 The Risk Register was considered and updates noted. A review of the Risk Register is being dealt with elsewhere in this agenda.
- 7.3 An update on the All Wales Pool progress was provided. This also features elsewhere on this agenda.
- 7.4 As previously reported, AON have been requested to undertake detailed modelling of future cashflows, post valuation, in order that a fully informed review of the Investment Strategy can be considered. The planned Investment Alignment Review will now have due regard to this cashflow position. In the interim, sterling cash balances and dividends received are being used as the source of funding short-term cash flow requirements.

8.0 CONCLUSION

- 8.1 This report sets out, for the Committee, the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement, by the Group Director Corporate and Frontline Services.
