

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2017-2018

PENSION FUND COMMITTEE

4TH JANUARY 2018

**REPORT OF: THE GROUP DIRECTOR,
CORPORATE AND FRONTLINE
SERVICES**

	AGENDA ITEM NO.5
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 27th November 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 September 2017.
- 4.2 During the quarter ended 30th September 2017, the overall value of the Fund increased from £3,058 million to £3,118 million.

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

Total Portfolio

	2014	2015				2016				2017			3yr
Quarter	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
Fund	4.5	6.7	-3.2	-2.3	6.0	1.4	5.3	7.9	1.8	5.1	2.8	1.7	13.0
B'mark	3.5	5.5	-3.6	-3.4	4.6	2.4	6.5	6.8	3.2	4.3	0.7	1.5	10.8
Relative	1.0	1.1	0.4	1.2	1.3	-1.0	-1.1	1.1	-1.3	0.8	2.1	0.2	1.9

- 4.4 As shown, the rolling 3 year performance of the fund is 1.9% positive as compared to benchmark. For the last quarter, performance has been varied across the Fund's managers. Outperformance came from Baillie Gifford (both mandates), BMO and CBRE whilst underperformance came from Newton and both UK equity managers (Invesco and Blackrock).
- 4.5 The Advisory Panel meets with Fund Managers on a cyclical basis and at the November meeting met with Newton (Global Equities) and Invesco (UK Equity). The key issues reported with the mandates were:

Newton – High Alpha Global Equities

- The value of the global equity portfolio increased from £470.2 million at 30th September 2016 to £503.3 million at 30th September 2017;
 - The total return delivered by the portfolio over the quarter to September 2017 was 0.6% which was behind the benchmark of 2.0%;
 - The 1 year return (to September 2017) is 8.6%, behind the benchmark of 15.5. The 3 year return is 13.9% against a benchmark of 15.1%.
- 4.6 The Panel continue to monitor the performance of Newton closely with a further (interim) telephone conference taking place on the 6th November. Newton accept that performance levels are not at an acceptable level but that under the stewardship of Jeff Monroe (since March 2012) the performance has been benchmark positive with 3 consecutive years of outperformance before more recent disappointing returns. They pointed to the absolute return and that Newton are protecting our capital, but were reminded that the Fund, via its asset allocation strategy, protects our capital and it is their responsibility to outperform the market and achieve their target. The panel will continue to monitor closely the ongoing performance of Newton.

Invesco – UK Equities

- The value of the UK equity portfolio held by Invesco increased from £138.3 million as at 30th September 2016 to £147.2 million as at the 30th September 2017;
 - The total return delivered by the portfolio over the quarter to September 2017 was -2.6% which was behind the benchmark of 2.1%;
 - The 1 year return (to September 2017) is 6.2%, behind the benchmark of 11.9%. The 3 year return is 6.5% against a benchmark of 8.5%.
- 4.7 The Fund Manager (Mark Barnett) is committed to a more domestically focused portfolio with just under 50% in the UK compared to the benchmark of 30%. It is believed that the domestic sector is undervalued
- 4.8 A significant negative performing stock during the quarter was Provident Financial. The Panel wished to explore the issues associated with this holding in depth, querying in particular the overall level of holding in this stock by Invesco (at 21%), the continued commitment to it (increased holding), the depth of knowledge and understanding Invesco had of the company's business remodelling and the socially responsible basis to the investment.
- 4.9 The Panel determined the need for further information and to formally write to Invesco to follow up on a number of these issues.
- 4.10 The overall Fund investment strategy review has been initiated with AON, with an interim conference call held on the 18th December to discuss progress. The review is due to be concluded during January the results of which and any proposed changes to the Fund's Investment Strategy discussed at the next meeting of the Committee.

MiFID II

- 4.11 As noted at the last meeting, the implementation of MiFID II (Markets in Financial Instruments Directive) reclassified 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.
- 4.12 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.

- 4.13 Accordingly the opt-up process has now been concluded with all the Fund's managers. A small number of ancillary service providers are still in the process of confirming opt up status.

5.0 ADMINISTRATION ISSUES

- 5.1 The Annual Allowance 2016/17 exercise has been completed, correspondence issued to targeted members, with some 'scheme pays' arrangements requested.
- 5.2 CPI for September 2017 has been confirmed as 3%. We await confirmation from the Government that revaluation and pensions increase for April 2018 will apply in the LGPS at this rate.
- 5.3 The Fund Annual Report was finalised and available at the AGM (published prior to 01st December statutory deadline) and is available on the web site.
- 5.4 Good progress continues to be made with the GMP Reconciliation requirements, with 'high value' liability risk now mitigated. The next phase is to review the Active Member category, with an extract scheduled for December 2017.
- 5.5 Work to ensure compliance with Welsh Language Standards continues to be progressed, with the website review due for completion by 31st March 2018.
- 5.6 Latest Member Self Serve (MSS) registrations are shown in the following table. MSS for active members and councillors is due to be initiated rolled out from the end January 2018.

Member Self Serve

	<u>Member Numbers</u>	<u>MSS Registrations</u>	<u>% of member Numbers</u>	<u>Previous % age</u>
Deferred	24,666	4,438	17.99%	10.81%
Pensioners	17,608	2,056	11.68%	10.97%
Dependants	2,807	84	2.99%	3%

- 5.7 The Fund Annual General Meeting took place on the 28th November 2017. It was well relatively well attended and presentations were well received.
- 5.8 Eight 'Key Performance Service Standards' are monitored by the panel. It was noted that to the end of October 2017, two measures

were behind their target. These related to preserved benefits being processed within 10 days (89.19% against target of 90%) and transfers in processed within 10 days (55.05% against target of 90%). The latter measure, for the month of October, relates to 39 cases completed of which 23 were over the target of 10 days taking an average of 12 days to complete. Neither of these measures relate to nor impact on physical payment of benefits.

- 5.9 The number of 'Internal Dispute Resolution Procedure' Appeals in progress remains extremely low, with no obvious trends to report.
- 5.10 The new General Data Protection Regulations (GDPR) take effect from 28th May 2018, officers are continuing to review and implement 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

GDPR has been incorporated into the Fund's risk register.

6.0 PENSION BOARD

- 6.1 The Pension Board met on the 12th December 2017. The Pension Committee Chair, Cllr Norris, was in attendance.
- 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 date of the next Pension Board has not yet been determined.

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.

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.
