

**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**MUNICIPAL YEAR 2018-2019**

**PENSION FUND COMMITTEE**

**24<sup>TH</sup> JULY 2018**

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

	<b>AGENDA ITEM NO.6</b>
<b>DELEGATED FUNCTIONS – UPDATE REPORT</b>	

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**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 11<sup>th</sup> July 2018.

#### 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 March 2018.

- 4.2 During the quarter ended 31<sup>st</sup> March 2018, the overall value of the Fund decreased from £3,254 million to £3,204 million.
- 4.3 A summary of performance relative to the Fund specific benchmark is shown below.

### Total Portfolio

	2015			2016				2017				2018	3yr
Quarter	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
Fund	-3.2	-2.3	6.0	1.4	5.3	7.9	1.8	5.1	2.8	1.7	3.9	-2.0	<b>9.6</b>
B'mark	-3.6	-3.4	4.6	2.4	6.5	6.8	3.2	4.3	0.7	1.5	3.9	-3.4	<b>7.7</b>
Relative	0.4	1.2	1.3	-1.0	-1.1	1.1	-1.3	0.8	2.1	0.3	0.1	1.5	<b>1.8</b>

- 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 varied across the Fund's managers. Outperformance came from Baillie Gifford (both mandates), Blackrock and CBRE whilst underperformance came from Newton and Invesco. BMOGAM met their benchmark.
- 4.5 The Advisory Panel meets with Fund Managers on a cyclical basis and at the July meeting met with CBRE and BMOGAM.
- 4.6 As members are aware, the last meeting of the Committee (March 2018) agreed to the revised asset allocation strategy for the Fund and the steps to be taken to move toward the preferred strategy, as shown in the table below.

		Proposed Step 1	Proposed Step 2	Proposed Step 3
Asset Class	Current Allocation	Current Benchmark	Strategy (1)	Strategy (2)
<b>Total Equities</b>	<b>74.80%</b>	<b>63%</b>	<b>63%</b>	<b>58%</b>
<b>Total Alternatives</b>	<b>5.40%</b>	<b>10%</b>	<b>20%</b>	<b>25%</b>
Absolute Return Bonds			10%	10%
Infrastructure				5%
Property	5.40%	10%	10%	10%
<b>Total Bonds &amp; Cash</b>	<b>19.80%</b>	<b>27%</b>	<b>17%</b>	<b>17%</b>
Fixed Interest	8.50%	12.50%	7.50%	7.50%
UK Corporate Bonds	9.40%	12.50%	7.50%	7.50%
Cash	1.90%	2%	2%	2%

- 4.7 Implementation of step 1 has involved reducing the fund's UK specific mandates to fund the increased investment levels in property and fixed interest / bonds. Officers have had detailed discussions with our respective existing managers to understand their strategy and to optimise the timing of moving funds. We have now completed the increased exposure to fixed interest and are in the process of

beginning to increase our property increase, in line with property investment opportunities.

- 4.8 The July panel discussions with CBRE and BMOGAM were centred around this process and their strategies moving forward. The performance of their portfolios is shown below.

#### BMOGAM

- For the year ending 31<sup>st</sup> March 2018 the portfolio has achieved a return of 1.6% against a benchmark of 0.9%;
- The value of the portfolio increased from £573.6 million as at 31<sup>st</sup> March 2017 to £590.0 million as at 31<sup>st</sup> March 2018.

#### CBRE

- For the year ending 31<sup>st</sup> March 2018 the portfolio has achieved a return of 11.3% against a benchmark of 6.9%;
- The value of the portfolio increased from £173.4 million as at 31<sup>st</sup> March 2017 to £177.9 million as at 31<sup>st</sup> March 2018.

- 4.9 The latest national pension fund performance data has been released recently the results of which are shown in the table below.

	<b>1 year</b>	<b>3 year</b>	<b>5 year</b>
Fund return (%)	6.5	9.6	10.2
Local authority universe average (%)	4.5	8.3	8.8
Local authority universe median (%)	4.0	7.7	8.5
Ranking	7 <sup>th</sup>	11 <sup>th</sup>	7 <sup>th</sup>

- 4.10 Positive progress continues to be made by the Wales Pension Partnership (WPP) in the establishment of the initial sub fund for the collective investing of assets. The prospectus for Global High Alpha Equities, comprising 2 sub funds with differing risk / return characteristics, has been completed and submitted to the FCA. We propose to transition our high alpha equity mandates into the sub funds, both of which will have underlying manager outperformance targets commensurate with our current managers.

## **5.0 ADMINISTRATION ISSUES**

- 5.1 The procurement processes for actuarial services and for the pension administration software supplier, have now been completed.

- 5.2 AON have been reappointed as the Fund's actuary. Heywoods, the software supplier have also been reappointed.
- 5.3 Year end exercise is well underway in order to meet are statutory requirements. The Service has experienced noticeable improvements for those Employers who have already participating in monthly data submissions via I-connect. The mandatory implementation if I-connect as supported at the last Committee will further assist delivery of our data improvement ambitions.
- 5.4 The GMP reconciliation exercise is on target to conclude by the December 2018 deadline. The final phase of Active Member category is progressing with exceptions referred to HMRC. Stalemate scenarios are being considered in accordance with recent LGA guidance.
- 5.5 Work to ensure compliance with Welsh Language Standards continues to be progressed; the website review was concluded by 31<sup>st</sup> March 2018 and is available to members.
- 5.6 Latest Member Self Serve (MSS) registrations are shown in the following table. MSS for councillors is the next phase to be rolled out.

### **Member Self Serve**

	<b><u>Member Numbers</u></b>	<b><u>MSS Registrations</u></b>	<b><u>% of member Numbers</u></b>	<b><u>Previous % age</u></b>
Actives	23,776	4,255	17.90%	N/A
Deferred	25,930	4,874	19.46%	18.69%
Pensioners	16,595	2,040	12.29%	11.51%

- 5.7 Eight 'Key Performance Service Standards' are monitored by the Panel. It was noted that to the end of May 2018, one measure was behind target. This related to transfers in processed within 10 days (71% against a target of 90%). This measure does not impact on the physical payment of benefits. This updated performance represents a further improvement from 60% to the end of January 2018, as reported at the last committee. Performance during May related to 17 cases, of which 5 were over the target of 10 days taking an average of 20 days to complete.
- 5.8 The number of 'Internal Dispute Resolution Procedure' Appeals in progress remains extremely low, with no obvious trends to report. The Pensions Ombudsman has issued two recent decisions; in both instances the respective appeal was not upheld.
- 5.9 A number of actions have been implemented to ensure the Fund's compliance with the new General Data Protection Regulations (GDPR), some of the key controls introduced include:

- Full 'Privacy Statement' developed and published to website.
- Revised Data Protection Register entry
- 'Memorandum of Understanding' issued to all scheme employers, setting out roles and responsibilities for data sharing expectations
- Additional agreements with third parties
- Risk Register updated accordingly

5.10 The Service continues to target data improvement measures through its Data Improvement Plan. The Pension Regulator requires Scheme Managers to report on 'data quality' within their Annual Scheme Return from this financial year. Data will be measured and scored across common and conditional data categories.

## **6.0 PENSION BOARD**

6.1 The Pension Board last met on the 27<sup>th</sup> April 2018, the next meeting is scheduled for 20<sup>th</sup> August 2018.

6.2 There are no issues which the Board currently 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 Chair of the Pension Board was in attendance at the last meeting of the Pension Committee.

## **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.

## **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.

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