

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2018-2019 – REPORT NO.

PENSION FUND COMMITTEE

15TH OCTOBER 2018

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

	AGENDA ITEM NO. 4
DELEGATED FUNCTIONS – UPDATE REPORT	

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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 24th September 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 June 2018.

- 4.2 During the quarter ended 30th June 2018, the overall value of the Fund increased from £3,203 million to £3,400 million.
- 4.3 A summary of performance relative to the Fund specific benchmark is shown below.

Total Portfolio

	2015		2016				2017				2018		3yr
Quarter	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Fund	-2.3	6.0	1.4	5.3	7.9	1.8	5.1	2.8	1.7	3.9	-2.0	6.6	13.2
B'mark	-3.4	4.6	2.4	6.5	6.8	3.2	4.3	0.7	1.5	3.9	-3.4	4.9	10.8
Relative	1.2	1.3	-1.0	-1.1	1.1	-1.3	0.8	2.1	0.3	0.1	1.5	1.6	2.2

- 4.4 As shown, the rolling 3 year performance of the fund is 2.2% positive as compared to benchmark. For the last quarter, performance has been positive across all Fund's managers with the exception of Invesco (UK High Alpha Equity). Quarterly performance was 1.6% positive to the benchmark.
- 4.5 The Advisory Panel meets with Fund Managers on a cyclical basis and at the September meeting met with Baillie Gifford to discuss both the Traditional Global Equity portfolio and the High Alpha Global Equity portfolio. These portfolios have different characteristics and performance targets and deliver different objectives for the fund.

Baillie Gifford – Traditional Global Equity Portfolio

- i) The value of the portfolio increased from £691.6M at the 30th June 2017 to £810.4M at the 30th June 2018;
- ii) The rolling 3 year performance of the portfolio is 18.3% as compared to a benchmark of 12.6%;
- iii) The latest quarter saw performance at 10.2% which was 3.5% ahead of benchmark.

Baillie Gifford – Global High Alpha Equity Portfolio

- i) The value of the High Alpha portfolio increased from £691.8M at the 30th June 2017 to £804.8M at the 30th June 2018;
- ii) The rolling 3 year performance of the portfolio is 19.7% as compared to a benchmark of 15.3%;
- iii) The latest quarter saw performance at 7.5% which was 0.5% ahead of the benchmark.

- 4.6 As members are aware, the last March meeting of the Committee 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)
Total Equities	74.80%	63%	63%	58%
Total Alternatives	5.40%	10%	20%	25%
Absolute Return Bonds			10%	10%
Infrastructure				5%
Property	5.40%	10%	10%	10%
Total Bonds & Cash	19.80%	27%	17%	17%
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 is well advanced, with our exposure to Fixed Interest returned to current benchmark level and property being increased in line with investment opportunities becoming available.
- 4.8 Positive progress continues to be made by the Wales Pension Partnership (WPP) in the establishment of the first two sub funds for the collective investing of assets. The prospectus for Global High Alpha Equities, comprising 2 sub funds with differing risk / return characteristics, has been approved by the FCA (24th July 2018). The proposals for the second sub fund for UK and European Equities was agreed by the Joint Governance Committee on the 25th September 2018 with work on the prospectus to follow.
- 4.9 Work is now in progress to appoint a transition manager to carry out the physical movement of assets as cost efficiently as possible and in line with agreed transition principles. We propose to transition our 2 high alpha equity mandates into the Global High Alpha sub funds, both of which will have underlying manager outperformance targets commensurate with our current managers.

5.0 ADMINISTRATION ISSUES

- 5.1 The Regulator scheme return has been received and requires completion and return by the 6th November 2018.
- 5.2 Following the reappointment of Heywoods, the administration software supplier, arrangements are now being made to transition to the hosted platform.

- 5.3 Regulatory changes relating to surplus balances on cessation have necessitated the Funding Strategy Statement to be reviewed and this is in progress.
- 5.4 Year end contribution postings were completed to schedule with noticeable improvements evident with the use of I-connect.
- 5.5 Annual Benefit Statements were all provided by the statutory deadline of 31st August 2018, the majority of which were published through Member Self Serve (MSS). The Annual Allowance exercise is now underway.
- 5.6 The GMP Reconciliation process is on target to be finalised by the end of 2018. This has been a significant undertaking, planned and completed efficiently and diligently and from within existing internal resources. This is in contrast with a number of Funds who have commission external resource to undertake this work.
- 5.7 The latest fund communication forum took place on the 19th September 2018, and was attended by the Chair of the Pension Board. The Annual General Meeting is scheduled for the 13th November. The Fund Actuary (AON), the Funds Independent Advisor (David Cullinan) and the Pension Regulator are confirmed as speakers for the event.
- 5.8 Changes in regulations relating to pre 2014 deferred members required 22,000 letters being issued during August, with a consequential impact and member engagement through the Helpdesk.
- 5.9 GDPR work is ongoing with the next phase requiring complete document review and the finalisation of a document retention policy,
- 5.10 The focus on Data Quality continues, member data was provided to the actuary during August in order for exceptions to be flagged and returned to fund employers. A data score was obtained from the new Heywoods analysis report to be included in the Scheme Return. Data has also been provided to the actuary to undertake member experience analysis, a year earlier than the valuation to assist the actual valuation process.
- 5.11 The mandatory roll out of I-connect is now advancing with a timetable of all employer on boarding in place.
- 5.12 Member Self Serve (MSS) is now rolled out to Active, Deferred, Pensioner and Dependant members, with registrations shown below.

	<u>Member Numbers</u>	<u>MSS Registrations</u>	<u>% of member Numbers</u>	<u>Previous % age</u>
Actives	23,192	8,175	35.25%	17.90%

Deferred	25,432	5,709	22.45%	19.46%
Pensioners	16,638	2,194	13.19%	12.29%
Dependants	2,659	95	3.57%	3.18%

- 5.13 Eight 'Key Performance Service Standards' are monitored by the Panel. It was noted that to the end of August 2018, one measure was behind target. This related to transfers in processed within 10 days (80% against a target of 90%). This measure does not impact on the physical payment of benefits. This updated performance represents an ongoing improvement (from 55.05% to the end of October 2017; 60% to the end of January 2017; 71% to the end of May 2018), as reported to previous committees. Those cases not completed within the 10 day target during August 2018 were actually completed in 12 days.
- 5.14 The number of 'Internal Dispute Resolution Procedure' Appeals in progress remains extremely low, with no obvious trends to report.

6.0 PENSION BOARD

- 6.1 The Pension Board last met on the 20th August 2018, the next meeting is scheduled for the 5th November 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 continues to attend meetings across the Fund's governance arrangements.

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.