

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2016-2017

PENSION FUND COMMITTEE

18TH JANUARY 2017

**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 30th November 2016.

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 2016.
- 4.2 During the quarter ended 30th September 2016, the overall value of the Fund increased from £2,584 million to £2,789 million.
- 4.3 A summary of performance relative to the Fund specific benchmark is shown below.

Total Portfolio

| | 2013 | 2014 | | | | 2015 | | | | 2016 | | | 3yr |
|----------|------|------|------|------|-----|------|------|------|-----|------|------|-----|-------------|
| Quarter | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | |
| Fund | 3.3 | 1.8 | 1.4 | 1.9 | 4.5 | 6.7 | -3.2 | -2.3 | 6.0 | 1.4 | 5.3 | 7.9 | 11.9 |
| B'mark | 3.3 | 0.8 | 2.1 | 2.2 | 3.5 | 5.5 | -3.6 | -3.4 | 4.6 | 2.4 | 6.5 | 6.8 | 10.4 |
| Relative | 0.0 | 0.9 | -0.7 | -0.2 | 1.0 | 1.1 | 0.4 | 1.2 | 1.3 | -1.0 | -1.1 | 1.1 | 1.4 |

4.4 As shown, the rolling 3 year performance of the fund is 1.4% positive as compared to benchmark. For the last quarter performance has been ahead of benchmark predominately due to significant outperformance in the Global Equity portfolios managed by Baillie Gifford, with the traditional portfolio outperforming by 2.7% and the High Alpha portfolio outperforming by 3.4%. Other managers' performance detracted from this positive performance however.

4.5 The Advisory Panel meets with Fund Managers on a cyclical basis and at the November meeting met with Blackrock and Invesco Perpetual, the Fund's two UK High Alpha managers. The key issues reported with the mandates were:

Blackrock

- The value of the portfolio increased from £121.8 million at the start of the quarter to £128.7 million at quarter end;
- The total return delivered by the portfolio over the quarter was 6.2% against a benchmark of 7.8%;
- The 3 year return (to September 2016) remains positive at 9.3% against a benchmark of 6.6%.

Invesco Perpetual

- The value of the portfolio increased from £131.7 million at the start of the quarter to £138.3 million at quarter end;
- The total return delivered by the portfolio over the quarter was 4.9% against a benchmark of 7.8%;
- The 3 year return (to September 2016) remains positive at 8.7% against a benchmark of 6.6%.

Both UK portfolios have now underperformed their benchmarks for the last 3 quarters. Whilst long term performance figures remain very positive the panel agreed the need to monitor closely.

- 4.6 During the September quarter, CBRE breached their mandate maximum limit for a holding in a single fund of 10% whereby they held 10.3% of a long lease property fund. A letter has been sent to CBRE's UK Head of Compliance with a response received on the 4th January 2017, the contents of which are currently being considered.

5.0 ADMINISTRATION ISSUES

- 5.1 The 2016 Valuation process continues to progress. A whole fund update was provided to the Annual General Meeting on the 21st November, with individual employer initial results to become available thereafter (through December / January). The most notable issue is a reduction in the discount rate which is having an upward pressure on the Future Service Rate.
- 5.2 In line with the results of the valuation, the Fund is considering a request received from Welsh Government to amend the way in which the "closed" former WDA admitted body liabilities are treated, which would have the effect of reducing their contribution levels and allow them a longer period over which to fund the liability. The fund is now considering legal advice received and the actuary view before providing a formal response back to WG.
- 5.3 Progress continues to be made in dealing with GMP reconciliation requirements with high value liability items having been largely concluded. HMRC turnaround times and a second data cut in September/October 2017 are some of the key risks to be noted.
- 5.4 An initial draft of the new 'Investment Strategy Statement' (replacing the Fund's existing 'Statement of Investment Principles') has been prepared and is being reviewed and updated, alongside the Funding Strategy Statement.
- 5.5 Eight 'Key Performance Service Standards' are monitored by the panel. It was noted during this period, that two measures had not met the expected target, both of which relate to the provision of statements and not the payment of benefits.
- 5.6 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 met on the 20th October 2016.
- 6.2 There are no issues which the Board require to be brought to the attention of the Committee. The Board have requested further information on the Guaranteed Minimum Pension Reconciliation

exercise and the impact of recent years levels of terminations on the fund cash-flow position.

- 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 January 2017 (date to be confirmed).

7.0 OTHER ISSUES

- 7.1 The Panel reviewed the skills and knowledge framework and noted the updates. Committee Members have been incorporated into the framework and are in the process of identifying their development needs.
- 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 The cash-flow position of the fund was discussed, it being agreed that AON will be requested to undertake detailed modelling of future cashflows, post valuation, in order that a fully informed review of the Investment Strategy can be considered. In the interim, it was agreed that sterling cash balances and dividends received should be the mechanism for 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.

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