



## **RHONDDA CYNON TAF COUNCIL PENSION FUND COMMITTEE**

Minutes of the meeting of the Pension Fund Committee held on Monday, 22 July 2019 at 2.00 pm at the Committee Room 1, The Pavilions, Cambrian Park. Clydach Vale, Tonypanydy, CF40 2XX.

### **County Borough Councillors - Pension Fund Committee Members in attendance:-**

Councillor M Norris (Chair)

Councillor G Caple    Councillor E Webster  
Councillor L Hooper    Councillor M Griffiths

### **Officers in attendance:-**

Mr B Davies, Director of Finance & Digital Services  
Mr I Traylor, Service Director – Pensions, Procurement & Transactional Services  
Mr C Evans,- Programme & Support Manager, Digital Services and ICT  
Mr P Griffiths, Service Director – Finance & Improvement Services  
Ms Yvonne Keitch, Senior Accountant Pensions & Treasury Management.

## **1 Welcome**

The Chair welcomed Members to the Committee and informed Members that the agenda would be dealt with out of sequence.

Members were informed that the presentation from LGT Capital Partners would be received as the first item on the agenda. Members agreed to this proposal.

## **2 LEARNING & DEVELOPMENT**

### **Alternative Investments- to receive a presentation from LGT Capital Partners on Private Equity**

Members received a presentation from Thomas Cooper (TC) and Caroline Bradshaw (CB) of LGT Capital Partners Ltd in respect of private equity investments.

Members were informed that LGT Capital has three big investment hubs based in New York, Hong Kong and London and that clients on average, generally remain invested for a period of approximately 16-17 years.

Members of the Committee were informed that there are three ways to gain exposure to private equity:-

1. Direct Fund Investment;
2. Managed programme investment; and,
3. Direct company Investment.

Discussions ensued and TC and CB outlined the key success factors in respect of private equity investing:-

- Manager Selection;

LCT Capital has some of the best fund managers available and they can pick and choose their investors.

- Access;

Access to the best managers is often by invitation only. Timing is also crucial, as it will involve picking the managers today that can do well regardless of the macro environment.

- Diversification;

This involves the enhancement of the overall portfolio returns and a reduction of volatility.

- Long term approach;

It is important to be a consistent investor and not try to time the market e.g possible negative returns in the short term due to fees and expenses.

Discussions continued and TC and CB clarified that investment in private equity does not come without risks. A Member of the Committee queried how much control LGT Capital has over the private fund managers. Members were told that the main skill is in selecting the managers upfront. The control element is in the selection process. It was emphasised that the ethical approach of the managers is an important factor in terms of selection.

Members noted the information in respect of private equity funding and discussions turned to integrating ESG into private equity investments. It was emphasised that ESG is a key consideration in all our investment decisions. The ESG process consists of monitoring, reporting and engagement. Members were informed that managers' mind-set has really changed in respect of ESG.

Discussions ensued and Members were referred to the annual ESG report, which can provide investors with transparency on ESG practices. It also encourages discussions with managers in respect of ESG and best practices. The Chair noted that this information was useful to Committee Members as ESG is a part of the Committee's ongoing Work Programme.

To summarise, TC informed Members that privately owned companies have opportunities ahead of them and that private equity can play an important role.

The Chair thanked LGT Capital Partners for providing the Committee with such a detailed presentation.

There were no apologies of absence received.

#### **4 Declaration of Interest**

In accordance with the Council's Code of Conduct, there were no declarations made pertaining to the agenda.

#### **5 Minutes**

It was **RESOLVED** to approve the minutes of the 25<sup>th</sup> of March 2019 as an accurate reflection of the meeting.

#### **6 Terms of Reference and Work Programme 2019/20**

The Director of Finance and Digital Services provided the Committee with details of the proposed Work Programme for 2019-20 in line with the Committee's Terms of Reference.

Discussions ensued and the Chair requested that ESG investment opportunities with the current passive manager be added to the Work Programme on the 22<sup>nd</sup> of October 2019. The Director of Finance and Digital Services agreed to update the work programme accordingly.

Following discussion, Members **RESOLVED** to approve the Work Programme for the 2019-20 Municipal year.

#### **7 LEARNING & DEVELOPMENT**

##### **Cyber Security- to receive a presentation from the Programme &, Support Manager, Digital and ICT Services.**

Members of the Committee received a presentation from the Programme & Support Manager in respect of cyber security.

Members were referred to the 'Cyber Security Principles for Pensions Schemes' that was published in April 2018 and were advised that this can be adopted to provide assurance to the Pensions Committee and Board that suitable cyber security arrangements are in place within the Council.

The Programme & Support Manager, informed Members that cyber-attacks can lead to:-

- Loss of personal & organisation data;
- Financial loss or harm;
- Reputational damage;
- Identify fraud; and,
- Major disruption to business activities.

Discussions ensued and the typical threats to cyber security were highlighted:-

- Phishing emails;
- Hacking;
- Compliance with security policies;
- Misuse of employee privileges;

- Password Management;
- Ransomware; and,
- Rise of the Bots

Members were referred to the key principles in respect of security for pension schemes, which include ensuring cyber risks are appropriately managed, by ensuring an appropriate control environment is maintained and incident response protocol in place.

Discussions ensued and Members received a summary of the findings from the Council's recent self-assessment in respect of cyber security. Committee were advised, that significant progress has been made to date. This includes updating the risk register to include cyber security, a risk mitigation plan being agreed, staff information management training and updating key information and security policies.

To summarise, Members of the Committee were informed of the next steps in respect of progressing the Council's cyber security:-

- Conduct Risk Assessment for System Hosting;
- Create a 'Formal' Cyber Incident Response Plan;
- Monitoring Systems and Networks; and,
- Conduct regular reviews.

Following the presentation, Members were invited to ask questions. Discussions ensued and the Chair queried whether Bots could also be used as a positive tool, to help combat cyber security threats. The Service Programme & Support Manager confirmed that this was correct and that this new technology can assist in such matters. Discussion ensued around the use of 'white hackers'.

Further discussion ensued and a Member queried whether the Council's systems could be quickly taken offline if a significant threat was determined.. The Service Programme & Support Manager confirmed that there is established protocol to deal with a security breach. Another Member queried whether a cyber-attack has ever occurred and failed. The Programme & Support Manager confirmed that the prevention and mitigation protocol has worked well to date.

Following discussion, it was agreed that Pension Board should receive the same re-assurance around the Pension Fund's cyber security self-assessment at its next scheduled meeting. The Chair thanked the Programme & Support Manager for delivering the presentation and it was agreed that a copy of the slides would be circulated following the meeting.

## **8 Delegated Functions Report**

Members received the update report of the Director of Finance and Digital Services in respect of delegated functions.

The Director reminded Committee that investment performance is considered on a quarterly basis and the most recent as at 31<sup>st</sup> March 2019, which saw the overall value of the fund increase from £3,212 million to £3,457 million.

Fund performance for the latest quarter was 0.9% ahead of benchmark and 1.4% ahead of benchmark for the latest rolling 3 years.

Members were informed that the annual performance report of Pensions and Investment Research Consultants Limited, which provides a comparison of Pension Fund Performance across LGPS funds in England and Wales. Members were advised that for the 2018/19 financial year, RCT were ranked 7<sup>th</sup> place with an annualised return of 8.8%, with a 5<sup>th</sup> place ranking over both 3 and 5 years.

Members were reminded that in the March 2018, Committee Members agreed to the revised asset allocation strategy for the Fund and the steps to be taken to transition towards the preferred strategy. Members were provided with a summary made in this regard to the 31<sup>st</sup> of March 2019.

The Director also reminded Members that the transition into the Global High Alpha Equities sub funds took place during January 2019, with post transition management commencing during February 2019. The Director advised Members that the proposals for the sub fund for UK and European Equities has been approved by the FCA and transition arrangements are currently being considered.

Members were informed that the WPP third phase relates to fixed Interest with initial sub funds proposed and agreed by the Joint Governance Committee for Global Bonds, Global Credit, Multi Asset Credit and Absolute Return Bonds. In respect of RCT Fund's Fixed Interest requirement, the Director confirmed that they remain committed to UK Bonds and UK Credit, alongside an exposure in Absolute Return Bonds (initially 5% stepping up to 10%).

The Service Director, Pensions, Procurement and Transactional Services provided an overview on the key administration issues such as work on the Employer scheme data and cash flow, to support the Triennial Valuation and the annual benefit publication. Members were reminded of the statutory deadline for the Annual Benefit Statement, and publication has been timetabled for mid-August to ensure compliance.

Members were updated in relation to Fund's Data Quality improvements, with another large Employer; South Wales Police now live on 'I-connect' automated scheme data submission software.

In respect of the Pension Board activity, Members were reminded that a joint meeting was held on the 25<sup>th</sup> of March 2019 and that the next Board meeting is scheduled for the 16<sup>th</sup> August 2019. Committee were informed that the Chair of the Board's term is due to end in October. However, the Chair's sponsoring Employer has agreed to support the continuation of the arrangement, which is currently being confirmed.

The Service Director, Pensions, Procurement and Transactional Services, informed Committee of the recent 'Good Governance Survey' conducted on behalf of the Scheme Advisory Board, and that the report and findings would be circulated when available. Different representatives of the Fund participated in order to capture the differing roles and responsibilities in respect of governance.

Discussions ensued and Members were given the opportunity to ask questions.

Discussions continued and a Member questioned how private equity fits in with our pension fund investment strategy. The Director of Finance and Digital Services confirmed that as part of our continual approach to pension learning and development, it is important that Committee Members and Officers are aware of any new or alternative asset classes that may be considered.

Another Member referred the Committee to the eight 'key performance service standards' and questioned why one measure was behind target. The Service Director Pensions, Procurement & Transactional Services confirmed that this particular measure was subject to delays outside the control of the Service; nevertheless, the performance was still very close to the set target and no scheme member was financially disadvantaged.

Following discussion, Members **RESOLVED** to acknowledge and note the issues being addressed in the Delegated Functions report.

## **9 Risk Register Review**

The Director of Finance and Digital Services presented his report in respect of the arrangements in place to manage risk within the Pension Fund.

Members were asked to note the updated risk register, which includes the progress in respect of the McCloud case in the Supreme Court.

Following consideration of the updated Pension Fund Risk Register, it was **RESOLVED** to note the arrangements in place for the management of risk within the fund.

## **10 Draft Financial Statements**

The Director of Finance and Digital Services presented his report in respect of the Pension Fund draft financial statements 2018/19.

Members were advised that the report sets out the role of the Committee with regard the approval process for the Pension Fund Accounts and provides members with the opportunity to discharge their responsibilities in this respect.

Members were informed that the draft accounts will require an updated disclosure in respect of the McCloud legal case.

Discussions ensued and a Member requested clarification in respect of group transfers. The Director clarified that Bridgend had joined with Cardiff and Vale to provide joint 'regulatory services' and the item in the accounts, reflected this transfer value to the Cardiff Pension Fund.

Following discussion, Members **RESOLVED** to note the certified draft financial statement of the Pension Fund for the financial year 2018/19.

## **11 Wales Pension Partnership**

The Director of Finance and Digital Services presented a report providing

Committee Members with an update in respect of the progress of the Wales Pension Partnership (WPP) and Joint Governance Committee (JGC).

Members were reminded that the UK Government's requirement for all pension funds to pool their investments has been progressing in Wales through the Wales Pension Partnership. The Director informed Members that the Partnership governance arrangements include a Joint Governance Committee, which meets around four times a year. Each Pension Fund in Wales is represented on the Committee by their respective Chair or Vice Chair.

Committee Members were told that the last meeting of the JGC was held on the 28<sup>th</sup> June 2019. Members were reminded that the link to the agenda had previously been shared.

The Director referred Members to Appendix 1 of the report and asked Members to consider the overarching Responsible Investment Policy and to provide feedback. It was confirmed that the policy would be considered by the JGC in September 2019.

Discussions ensued and the Chair commented that the policy was a good starting point in respect of partnership working. Another Member queried whether the policy would go to the Pensions Board for further consideration. The Director confirmed that whilst not part of the formal approval processes, the Board would clearly have the opportunity to consider and comment upon it as part of their role.

Following discussion, Members **RESOLVED** to note the update on the work and progress with regard to the Wales Pension Partnership and Joint Governance Committee.

**This meeting closed at 4.15 pm**

**CLLR M. NORRIS  
CHAIR.**