

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2019-2020

PENSION FUND COMMITTEE

23rd MARCH 2020

**REPORT OF: THE DIRECTOR OF FINANCE
AND DIGITAL SERVICES**

AGENDA ITEM NO. 5
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 Director of Finance and Digital 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 Director of Finance and Digital 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 9th March 2020.

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 December 2019.
- 4.2 During the quarter ended 31st December 2019, the overall value of the Fund increased from £3,684 million to £3,784 million.

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

Total Portfolio

	2017				2018				2019				3yr
Quarter	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Fund	5.1	2.8	1.7	3.9	-2.0	6.6	.2.8	-8.1	7.9	5.0	1.9	2.6	10.2
B'mark	4.3	0.7	1.5	3.9	-3.4	4.9	2.4	-6.2	7.0	4.1	3.1	0.7	7.6
Relative	0.8	2.1	0.3	0.1	1.5	1.6	0.5	-2.0	0.9	0.9	-1.2	1.9	2.6

- 4.4 As shown, the rolling 3 year performance of the Fund is 2.6% positive as compared to benchmark, with Baillie Gifford traditional equity portfolio, BMOgam bond portfolio, CBRE property and BlackRock passive equity all outperforming their rolling 3 year rolling benchmarks. For the last quarter (i.e. quarter 4), all equity mandates outperformed their benchmarks, and the BMOgam bond portfolio and CBRE property portfolio performed in line with their benchmarks.
- 4.5 Following the transition of the High Alpha global equity funds¹ into the Wales Pension Partnership (WPP) in quarter 1, quarter 4 performance for both Global Growth and Global Opportunities was positive with both outperforming the benchmark.
- 4.6 The March 2020 Panel agenda included a review of Fund Manager Benchmarks and Targets which affirmed the current targets should remain. The Panel also received presentations from Baillie Gifford, the Pension Fund's traditional equity manager, Fidelity, the UK corporate bond manager of the Wales Pension Partnership, and Veritas, one of the fund managers of the Global Growth equity sub fund.
- 4.7 As Members will be aware, the March 2018 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. The following table provides a summary of progress made in this regard to 31st December 2019.

¹ High Alpha global equity funds - sub funds of Global Growth (80%) and Global Opportunities (20%).

		Proposed Step 1	Proposed Step 2	Proposed Step 3
Asset Class	Allocation 31/12/19	Current Benchmark	Strategy (1)	Strategy (2)
Total Equities	68%	63%	63%	58%
Total Alternatives	8%	10%	20%	25%
Absolute Return Bonds			10%	10%
Infrastructure				5%
Property	8%	10%	10%	10%
Total Bonds & Cash	24%	27%	17%	17%
Fixed Interest (UK)	11%	12.5%	7.5%	7.5%
Corporate Bonds (UK)	12%	12.5%	7.5%	7.5%
Cash	1%	2%	2%	2%
Expected return (pa)		5.9%	6.2%	6.3%
Expected volatility (pa)		12.2%	12.2%	11.7%

- 4.8 The asset allocation of the Fund by fund managers as at 31st December 2019 by mandate, which includes cash, is shown in the table below.

Baillie Gifford Traditional	Global Equities	23%
Link – Global Opportunities Fund	Global High Alpha Equities	8%
Link – Global Growth Fund	Global High Alpha Equities	32%
BlackRock	Passive Global Equities	5%
CBRE	UK Property	8%
BMO Global Asset Management	UK Bonds	24%
Internal	Cash	0%

- 4.9 Following agreement at the October 2019 Committee to move the investments of the current mandate with Blackrock to the ACS World Low Carbon Equity Tracker Fund, the transition is in the process of being arranged.

5.0 ADMINISTRATION UPDATE

- 5.1 The 2019 Valuation exercise has concluded and all fund Employers have received their results. The Annual Allowance work has been concluded and HMRC returns and payments finalised.
- 5.2 The next phase of ensuring on-going compliance with the General Data Protection Regulation (GDPR) is underway, requiring a complete document review, and the Council's Information Management Team is supporting the Service. In parallel, Heywood are reviewing the data retention/deletion policy for the pension administration system, Altair.
- 5.3 Data quality and compliance remains a key priority for the Pension Fund. 'I-Connect' continues to be rolled out as agreed by Committee on a mandatory basis. Discussions continue with those Employers yet to implement to agree implementation dates.
- 5.4 Member Self Serve (MSS) continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown below (as at February 2020).

	<u>Member Numbers</u>	<u>MSS Registrations</u>	<u>Current % Take-up</u>	<u>% Reported Previously</u>
Actives	23,505	8,847	37.64%	37.58%
Deferred	27,251	7,118	26.12%	25.45%
Pensioners	17,459	3,369	19.30%	18.14%
Dependants	2,707	104	3.84%	3.78%

- 5.5 Eight 'Key Performance Service Standards' are monitored by the Panel and it was noted that performance was positive across all indicators for the period April to December 2019.
- 5.6 The number of 'Internal Dispute Resolution Procedure' Appeals in progress continues to be extremely low, with no obvious trends to report.

6.0 PENSION BOARD

- 6.1 The Pension Board last met on 31st January 2020 and the next meeting is scheduled for 23rd March, jointly with the Committee.
- 6.2 The Chair of Pension Board is to support a compliance review against the Regulator's 'Governance and administration risks in public service pension schemes: an engagement report', with fieldwork review being undertaken by Internal Audit.
- 6.3 Three Board members, along with the Chair of the Pension Fund Committee and the Principal Accountant – Treasury Management and Pension Fund, attended

a joint Welsh training session in Powys covering fund manager structures, transition and liquidity and private market / impact investment asset classes.

- 6.4 Pension Board meeting agendas and minutes are published on the Fund website in accordance with the Pension Regulator's requirements.
- 6.5 The Chair of the Pension Board continues to attend meetings across the Fund's governance arrangements and represents the Fund at Welsh Pension Board Chair engagements

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 Attached at Appendix 1 is the latest Local Authority Pension Fund Forum quarterly engagement report for the period October to December 2019.

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 Director of Finance and Digital Services.
