

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2019-2020

PENSION FUND COMMITTEE

14th JULY 2020

**REPORT OF: THE DIRECTOR OF FINANCE
AND DIGITAL 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 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 22nd June 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 March 2020.
- 4.2 During the quarter ended 31st March 2020, the overall value of the Fund decreased from £3,784 million to £3,350 million. (Note, at the 31st May 2020 the Fund value was £3,793 million).

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

Total Portfolio

	2017			2018				2019				2020	3yr
Quarter	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
Fund	2.8	1.7	3.9	-2.0	6.6	2.8	-8.1	7.9	5.0	1.9	2.6	-11.4	4.1
B'mark	0.7	1.5	3.9	-3.4	4.9	2.4	-6.2	7.0	4.1	3.1	0.7	-10.6	2.3
Relative	2.1	0.3	0.1	1.5	1.6	0.5	-2.0	0.9	0.9	-1.2	1.9	-0.8	1.8

- 4.4 As shown, the rolling 3 year performance of the Fund is 1.8% positive as compared to benchmark. For the last quarter (i.e. quarter 1), Baillie Gifford, the traditional equity portfolio and the Global Opportunities high alpha equity portfolio outperformed their benchmarks. The Global Growth high alpha equity portfolio, BMOgam bond portfolio and CBRE property portfolio underperformed their benchmarks. BlackRock passive equity portfolio performed in line with benchmark. Baillie Gifford traditional equity portfolio, CBRE property and BlackRock passive equity all outperformed their rolling 3 year rolling benchmarks.
- 4.5 The Pension Fund participates in the Pensions and Investment Research Consultants Limited (PIRC Ltd) annual Local Authority Fund Statistical Universe Review. At the end of March 2020, the Universe comprised 63 funds with a combined value of £180 billion. A summary of the Fund's performance and ranking is shown below.

	1 year		3 years		5 years		10 years	
	% p.a	Rank	% p.a	Rank	% p.a	Rank	% p.a	Rank
Universe	-4.8		1.9		5.2		6.9	
RCT	-2.8	23	4.1	2	6.9	5	8.5	5

- 4.6 The June 2020 Panel agenda included an annual review of Fund Manager Benchmarks and Targets which affirmed the current targets should remain. The Panel also received presentations from Pzena, one of the fund managers of the Global Growth equity sub fund and Mercer Performance Services. Mercer Performance Services are employed by the Fund to measure the performance of the Fund as a whole and the performance of the fund managers against agreed benchmarks.
- 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 March 2020.

		Proposed Step 1	Proposed Step 2	Proposed Step 3
Asset Class	Allocation 31/03/2020	Current Benchmark	Strategy (1)	Strategy (2)
Total Equities	64%	63%	63%	58%
Total Alternatives	8%	10%	20%	25%
Absolute Return Bonds			10%*	10%
Infrastructure				5%
Property	8%	10%	10%	10%
Total Bonds & Cash	28%	27%	17%	17%
Fixed Interest (UK)	14%	12.5%	7.5%	7.5%
Corporate Bonds (UK)	13%	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%

*The investment into Absolute Return Bonds (ARBs) is to have an initial commitment of 5%

With the current market volatility and the considerable stress in the global economy sub investment grade companies, the initial investment of 5% in ARBs has been delayed. This allocation is also to be invested in UK Corporate Bonds when the WPP sub fund is launched.

- 4.8 Following the recent actuarial valuation exercise the Fund is to refresh its current investment strategy. Its purpose will be to assist in considering the current investment strategy and how the Fund should respond given the improvement in the funding position since the last actuarial valuation.

- 4.9 The asset allocation of the Fund by fund manager and mandate as at 31st March 2020 (which includes cash) is shown in the table below.

Baillie Gifford Traditional	Global Equities	22%
Link – Global Opportunities Fund	Global High Alpha Equities	8%
Link – Global Growth Fund	Global High Alpha Equities	30%
BlackRock	Passive Global Equities	4%
CBRE	UK Property	9%
BMO Global Asset Management	UK Bonds	27%
Internal	Cash	0%

- 4.10 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 was due to take place during March 2020. This transition has been delayed due to market volatility and Covid-19.

5.0 ADMINISTRATION UPDATE

- 5.1 The 2019 Valuation exercise has concluded and all fund Employers have received their results. The Valuation Report has been published on the RCT Pension Fund and Scheme Advisory Board websites. A reconciliation of contributions received post valuation identified a small number of Employers who had unintentionally omitted to apply their new rates. This oversight has subsequently been resolved with those Employers concerned.
- 5.2 The employer end of year pension accounting reviews were completed to the timescales agreed with the Fund Actuary. The Annual Pension Increase of 1.7% was also applied and completed to schedule. Year-end contributions postings are well underway and will support the formal publication of the Annual Benefits Statements during August.
- 5.3 The Chair of Pension Board is supporting the compliance review against the Regulator’s ‘Governance and administration risks in public service pension schemes: an engagement report’. The fieldwork scope of the Internal Audit review has been expanded to provide reassurance on key processes during ‘lockdown’ arrangements. The timeline has been adjusted accordingly, with the review to conclude in quarter 2.
- 5.4 The updated Fund’s Governance Documents have all been published in accordance with the annual review arrangements.

- 5.5 All Wales Practitioner Group meetings are held to discuss and feedback issues into the National LGPS Advisory Group. Some initial statistics have been requested and collated for the Fund in relation to member deaths :

	March/April 2019	March/April 2020	May 2019	May 2020
Actives	5	3	58	72
Deferred	3	9		
Pensioner/Dependants	9	143		

- 5.6 The next phase of the GDPR is underway, requiring a complete document review. The Council's information management team is supporting the Service. In parallel, the pensions software provider is reviewing their data retention/deletion policy in respect of the hosted system arrangements.
- 5.7 As a result of the new remote working arrangements, an assessment of the Fund's cyber security arrangements has been updated, which confirmed that appropriate arrangements are in place.
- 5.8 Data quality and compliance remains a key priority for the Pension Fund. To assist improvements, the Government Actuary Department (GAD) feedback on quality will be reviewed ahead of production of data this year. 'I-Connect' continues to be rolled out as agreed by the Committee on a mandatory basis. Those Employers yet to implement were given a revised implementation date of end July 2020, however circumstances may have impeded their progress.
- 5.9 Member Self Serve (MSS) continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown below (as at June 2020). A new development implemented in April, includes the provision of electronic payslip and P60's to pensioners via their MSS online record.

	<u>Member Numbers</u>	<u>MSS Registrations</u>	<u>Current % Take-up</u>	<u>% Reported Previously</u>
Actives	23,719	8,859	37.35%	37.64%
Deferred	28,050	7,338	26.64%	26.12%
Pensioners	17,478	3,552	20.32%	19.3%
Dependants	2,706	107	3.95%	3.84%

- 5.10 Eight 'Key Performance Service Standards' are monitored by the Panel. It was noted that in respect of performance during May 2020, one Performance Service Standard was behind target. The flow of high priority work originally slowed due to the new remote working arrangements, however process performance is now back to normal.

- % transfers in processed within 10 days (65% for May against a target of 90%). This measure does not impact on the physical payment of benefits. 20 Cases were completed of which 7 exceed the 10 days target.

- 5.11 The number of 'Internal Dispute Resolution Procedure' Appeals in progress continues to be extremely low, with no obvious trends or concerns to report.

6.0 PENSION BOARD

- 6.1 The Pension Board last met on 31st January 2020.
- 6.2 The last joint scheduled meeting of the Pension Committee and Pension Board was due to take place on the 23rd March 2020. This was cancelled due to the then social distancing and impending lockdown.
- 6.3 A Pension Board virtual meeting is to be scheduled for July/August 2020

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 LAPFF quarterly engagement report for the period January to March 2020

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.
