

**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**MUNICIPAL YEAR 2020-2021**

**PENSION FUND COMMITTEE**

**13<sup>th</sup> OCTOBER 2020**

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

<b>AGENDA ITEM NO 5</b>
<b>DELEGATED FUNCTIONS – UPDATE REPORT</b>

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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 28<sup>th</sup> September 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 June 2020.
- 4.2 During the quarter ended 30<sup>th</sup> June 2020, the overall value of the Fund increased from £3,350 million to £3,905 million (note, at the 31<sup>st</sup> August 2020 the Fund value was £4,032 million).

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

### Total Portfolio

	2017		2018				2019				2020		3yr
Quarter	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Fund	1.7	3.9	-2.0	6.6	2.8	-8.1	7.9	5.0	1.9	2.6	-11.4	16.6	<b>8.5</b>
B'mark	1.5	3.9	-3.4	4.9	2.4	-6.2	7.0	4.1	3.1	0.7	-10.6	12.5	<b>6.1</b>
Relative	0.3	0.1	1.5	1.6	0.5	-2.0	0.9	0.9	-1.2	1.9	-0.8	4.1	<b>2.4</b>

- 4.4 As shown, the rolling 3 year performance of the Fund is 2.4% positive as compared to benchmark. For the last quarter (i.e. quarter 2), Baillie Gifford, the traditional equity portfolio, the Global Growth high alpha equity portfolio and BMOgam bond portfolio outperformed their benchmarks. The Global Opportunities high alpha equity portfolio and CBRE property portfolio underperformed their benchmarks. BlackRock passive equity portfolio performed in line with benchmark. Baillie Gifford traditional equity portfolio, BMOgam bond portfolio and BlackRock passive equity all outperformed their rolling 3 year rolling benchmarks, as have the 2 global high alpha WPP sub funds (since inception).
- 4.5 The September 2020 Panel included a review of fund managers' performance and the Panel met with a number of fund managers. A presentation was received from Baillie Gifford, the traditional equity manager and one of the fund managers of the Global Growth equity sub fund. Baillie Gifford also presented on their Global High Alpha Paris Aligned product. A presentation was received from CBRE, the Fund's property manager on their June quarter performance. A presentation was received from Russell Investments, the WPP Investment Management Solutions Provider, on infrastructure opportunities for the Wales Pension Partnership.
- 4.6 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 30<sup>th</sup> June 2020.

Asset Class	Allocation 30/06/2020	Proposed Step 1	Proposed Step 2	Proposed Step 3
		Current Benchmark	Strategy (1)	Strategy (2)
<b>Total Equities</b>	<b>68%</b>	<b>63%</b>	<b>63%</b>	<b>58%</b>
<b>Total Alternatives</b>	<b>7%</b>	<b>10%</b>	<b>20%</b>	<b>25%</b>
Absolute Return Bonds			10%*	10%
Infrastructure				5%
Property	7%	10%	10%	10%

<b>Total Bonds &amp; Cash</b>	<b>25%</b>	<b>27%</b>	<b>17%</b>	<b>17%</b>
Fixed Interest (UK)	11%	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% which has been deferred in light of current market volatility and the considerable stress in the global economy sub investment grade companies (this allocation is also to be invested in UK Corporate Bonds when the WPP sub fund is launched).

- 4.7 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.
- 4.8 The asset allocation of the Fund by fund manager and mandate as at 30<sup>th</sup> June 2020 (which includes cash) is shown in the table below.

Baillie Gifford Traditional	Global Equities	24%
Link – Global Opportunities Fund	Global High Alpha Equities	8%
Link – Global Growth Fund	Global High Alpha Equities	31%
BlackRock	Passive Global Equities	5%
CBRE	UK Property	7%
BMO Global Asset Management	UK Bonds	25%
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 was due to take place during March 2020. The transition has been delayed due to market volatility and Covid-19. The transition is now schedule for to early November 2020. Transition accounts of the Custodian are currently being used in the fixed income transitions to the WPP UK credit fund and the BlackRock passive gilt.

## 5.0 **ADMINISTRATION UPDATE**

- 5.1 The Ministry of Housing, Communities and Local Government (MHCLG) have recently consulted on two scheme amendment proposals. The first consultation aims to deal with the required remedies as a result of the McCloud judgment. This retrospective exercise will result in a significant resource pressure on both the Fund's Administration Team and Employers.
- 5.2 The second consultation, aims to deal with the £95k exit payment cap reforms being implemented by the UK Government across the public sector. However, it is noted that the LGPS scheme specific reforms proposed would appear to be wider than anticipated.
- 5.3 The Employer year-end contributions postings are completed and supported the formal publication of the Annual Benefits Statements during August, and prior to the statutory deadline. This enables the Service to conclude the 2019/20 Annual Allowance 'Pension Tax' exercise, issuing saving statements to those scheme members affected by the 6<sup>th</sup> October.
- 5.4 At the end of September, the Government Actuary Department (GAD) issued their membership 'data collection' request in respect of scheme cost valuation, requiring completion by the 23<sup>rd</sup> November 2020. .
- 5.5 The Fund's Annual Data quality score has been produced and will be reported to the Pension Regulator as part of the scheme return requirement during October. The result shows a further improvement this year as follows:

	<b><u>18/19</u></b>	<b><u>19/20</u></b>
Common	97.1%	97.3%
Scheme Specific	97.5%	97.8%

- 5.6 The Service participated in the Council's first virtual corporate induction day, ensuring continuity in the early engagement of new employees and informing them of the key benefits of participating in the Local Government Pension Scheme. The Service continues to progress its own recruitment and staff development and will be shortly appointing to a further apprenticeship role.
- 5.7 'I-Connect' monthly membership data uploads, continue to be rolled out across all Employers as agreed by the Committee on a mandatory basis. We continue to work closely with those Employers yet to implement to agree target dates (an initial revised implementation date of the end of July has been impeded by current circumstances).
- 5.8 Member Self Serve (MSS) continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown below (as at September 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 Percentage Take-up</u>	<u>Percentage Reported Previously</u>
Actives	23767	8991	37.83%	37.35%
Deferred	28311	7664	27.07%	26.64%
Pensioners	17585	3731	21.22%	20.32%
Dependants	2742	116	4.23%	3.95%

5.9 Eight 'Key Performance Service Standards' are monitored by the Panel. It was noted that in respect of performance to August 2020, three Service Standards were behind target. The year-end exercises and the team being encouraged to take annual leave have contributed to some delays. The measures behind target are shown below (note there was no impact on the payment of member benefits) :

- % Employer requests for retirement estimates processed within 5 days
- % Transfers In processed within 10 days
- % Transfers Out processed within 10 days

5.10 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 (virtually) on 5<sup>th</sup> August 2020.

6.2 The next Board meeting is to be scheduled for 3<sup>rd</sup> November 2020.

6.3. Pension Board Members have continued to support their skills and knowledge requirement, through their attendance at relevant online events.

## **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 on this agenda.

7.3 Attached at Appendix 1 is the latest LAPFF quarterly engagement report for the period April to June 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.

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