

CLWYD PENSION FUND COMMITTEE
8 NOVEMBER 2016

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council held at Delyn Committee Room, County Hall, Mold CH7 6NA on Tuesday, 8th November, 2016

PRESENT: Councillor Alan Diskin (Chairman)

Councillors: Haydn Bateman (Vice Chair), Brian Dunn, Ron Hampson, and Matt Wright

CO-OPTED MEMBERS: Steve Hibbert (Scheme Member Representative), Councillor Andrew Rutherford (Other Scheme Employer Representative), Councillor Steve Wilson (Wrexham County Borough Council) and Councillor Huw Llewelyn Jones (Denbighshire County Council)

APOLOGIES: Gary Ferguson (Corporate Finance Manager), Debbie Fielder (Pensions Finance Manager).

ALSO PRESENT (AS OBSERVERS): Mark Owen (Employer representative Clwyd Pension Fund Board) and Gaynor Brooks (Member representative Clwyd Pension Fund Board)

IN ATTENDANCE:

Advisory Panel comprising: Colin Everett (Chief Executive), Philip Latham (Clwyd Pension Fund Manager), Karen McWilliam (Independent Advisor - Aon Hewitt), Paul Middleman and Adam Lane (Fund Actuary and Strategic Risk Adviser - Mercers), Kieran Harkin, Anthony Kershaw and Nick Buckland (Fund Investment Consultants – JLT Group).

Officers/Advisers comprising: Alwyn Hughes (Pensions Finance Manager), Helen Burnham (Pensions Administration Manager), Karen Williams (Principal Pensions Officer) and Kerry Robinson (Communications Officer) taking minutes.

Prior to the start of the meeting the Chair welcomed the members of the Clwyd Pension Fund Board and the Committee agreed that they could contribute to the meeting.

39. **DECLARATIONS OF INTEREST (INCLUDING CONFLICTS OF INTEREST)**

Councillor Stephen Wilson and Councillor Huw Llewelyn-Jones declared a personal interest as being members of the Clwyd Pension Fund for all items.

Karen McWilliam (Independent Adviser – Aon Hewitt) declared a personal interest as an employee of Aon Hewitt who may submit a tender submission to be the operator of the Wales Pool. Paul Middleman (Fund Actuary – Mercers) and Adam Lane (Strategic Risk Adviser – Mercers) also both declared a personal interest as employees of Mercer who may also submit a tender submission to be the operator of the Wales Pool.

40. **MINUTES**

The minutes of the meeting of the Committee held on 29 September 2016 were submitted.

RESOLVED:

That the minutes be received, approved and signed by the Chairman as a correct record.

GOVERNANCE

Philip Latham, Clwyd Pension Fund Manager, introduced two presentations to Committee:

- (i) Statutory DCLG guidance for the Investment Strategy Statement (ISS) that is a requirement of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and which replaces the Statement of Investment Principles (SIP) from 1st April 2017 and the Governance of Pooling.
- (ii) The CIPFA/Aon Guidance Investment Pooling Governance Principles.

41. **NATIONAL GUIDANCE ON INVESTMENT STRATEGY STATEMENTS (ISS) AND POOLING GOVERNANCE**

The Clwyd Pension Fund Manager, Mr Latham introduced Nick Buckland (Fund Investment Consultant – JLT Group) who gave a presentation on the new statutory DCLG guidance for the ISS. The presentation covered:

- the change in regulations,
- the requirement to publish an ISS,
- Directions by the Secretary of State
- the content of the ISS requirements including:
 - Requirement to have a wide variety of investments
 - To assess the suitability of Investments
 - Approach to risk
 - pooling and,
 - social, environmental and governance considerations and
 - the exercise of voting rights

Councillor Steve Wilson asked for clarification on boycotts and sanctions. Steve Hibbert commented on the Government response to the consultation (which received over 23,000 responses) noting no significant changes to the draft regulations were made as a result.

Karen McWilliam (Independent Adviser – Aon Hewitt) gave a presentation to the Committee on the CIPFA/ Aon Guidance on Investment Pooling Governance Principles covering:

- purpose of the guidance
- what we need to do to evolve our operations to adapt to the changes.
- changes to the reporting in the Annual Report.

- reviewing strategies, policies and processes reflecting the changes in the pooling governance.
- the requirements of the Joint Committee including:
 - terms of reference and
 - knowledge and skills policy for the decision makers.

Mrs McWilliam confirmed that the reporting from the Operator will need to be comprehensive and fit the individual requirements of each fund. She drew attention to the need for engagement of stakeholders, including employers and scheme members, regarding the implications of pooling for the Fund.

Further discussions centred on the implementation period for the Pool and the details around of the joint committee being set up for Wales. Mr Latham, Clwyd Pension Fund Manager, outlined how an officer working group would be making recommendations to the Joint Committee.

Mr Latham (Clwyd Pension Fund Manager) requested that the Chair agreed to a change in the order of the agenda with Agenda item 15 Pooled Investments be presented now. This was agreed.

42. **LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985 - TO CONSIDER THE EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED:

That the press and public be excluded for the remainder of the meeting for the following item by virtue of Paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

43. **POOLED INVESTMENTS**

Mrs McWilliam and Mr Middleman left the room.

Mr Latham (Clwyd Pension Fund Manager) provided Committee Members with a verbal update on the outcome of a cross-pool meeting with Teresa Clay (Head of Local Government Pensions at Department of Communities and Local Government) regarding the proposals for the Investment Pooling.

Mr Latham also reported that there would be upcoming meetings between Marcus Jones, the Local Government Minister (DCLG), and representatives of the eight proposed pools prior to a written all-clear being issued to allow the pool's to move forward. A wide ranging discussion followed.

The Committee was also updated by Mr Latham on progress of the Wales Pool. An outline was given of the respective responsibilities of the Committee, Officers, Advisors and the Joint Chair's Committee during the transitional period, the period immediately following the awarding of the operator contract as well as the medium to long term.

A wide ranging discussion followed. Mr Latham informed the Committee that both he and the Chair, Cllr. Alan Diskin, would be attending a meeting on Friday with the Chairs of the other seven funds in Wales.

RESOLVED:

That the Members note the update.

44. **FLIGHTPATH STRATEGY PROPOSAL**

Mr Middleman (Fund Actuary – Mercer) and Mr Lane (Strategic Risk Adviser – Mercer) presented a report which gave:

- an overview of the existing Flight Path strategy
- confirmation that the current framework was operating well
- outlined of the review undertaken following the triennial actuarial valuation and Brexit. The following three strands were reviewed:
 - current mandate, with a view to identifying efficiencies
 - equity options, to protect current position
 - the triggers – with resulting adjustments being recommended to the Committee.

Mr Middleman explained that the current framework is in place to protect the Fund, capture favourable conditions and potentially bank any gains whilst ensuring that protection is not purchased at any price. The Committee approved the existing framework two years ago and it has made a significant difference to the Fund value. The Fund deficit would have been £125 million greater if the flight path had not been implemented. However, the review, which was discussed at the 27 September 2016 Committee, was necessary because there is a need to ensure that it remains fit for purpose and whether it could be improved further.

Mr Lane then outlined the report to the Committee with input, as appropriate from Mr Middleman and Mr Harkin (Fund Investment Consultant – JLT Group).

Mrs Brookes (Pension Board) asked whether the protection afforded by the use of equity options had always been available and whether the Fund had previously considered it. Mr Lane replied that the equity option market is an established market and that it was being considered now due to market conditions. Mr Latham added that that the current focus on the LGPS is on comparing returns on investments. There is a reputational risk if equities continue to climb whilst our returns continue to drag.

Mr Lane stated that if the equities market suffers a significant drop then we should outperform other LGPS funds due to the level of protection that the CPF has.

Discussions then moved onto the creation of a Funding and Risk Management Group (FRMG) to review the various triggers within the flight path. In response to a question by Mr Hibbert, Mrs McWilliam assured the Committee that terms of reference for FRMG were being developed by officers and advisers, and the Committee would receive ongoing reports on the work of the Group.

Mr Lane explained that inflation and yield triggers would be looked at every valuation cycle unless there was a major change, for example, in Bank of England economic assumptions.

Following further discussion it was suggested that the recommendation to Committee be amended to add 'in principle' which would enable officers and advisors to work on the details rather than requiring further approval from the Committee.

Mr Harkin (Fund Investment Consultant – JLT Group) replied that the proposed group would work in a similar fashion to the existing Tactical Asset Allocation Group.

RESOLVED:

- (a) That the Committee approve in principle the proposed changes and delegate decision making to Officers subject to the implemented changes not varying significantly and an update is given at the next Committee meeting.
- (b) That the Committee notes the actions being taken within the current framework.

45. **DELEGATED RESPONSIBILITIES AND URGENT DELEGATIONS**

Mr Latham (Clwyd Pension Fund Manager) presented the report listing the delegations used across the areas of Governance, Administration and Communications, and Investments and Funding since the Committee on the 27 September 2016.

RESOLVED:

That the report be noted including the delegated responsibilities.

46. **GOVERNANCE UPDATE**

Mr Latham (Clwyd Pension Fund Manager) stated that there were no updates in the following areas to report since Committee on the 27 September 2016.

- Governance
- Administration and Communications
- Investment and Funding

Mr Latham reminded Committee of the Annual Joint Consultative Meeting taking place that afternoon.

47. **ECONOMIC AND MARKET UPDATE**

Mr Harkin (Fund Investment Consultant – JLT Group) provided Committee Members with an economic and market update for the quarter ended 30

September 2016. Mr Harkin commented that the economic and market environment during the third quarter continued to be dominated by the UK's decision to leave the EU. Key contributors driving sentiment include:

- the sharp fall in Sterling
- political uncertainties such as the impact of Brexit and the run up to the US Presidential election
- central Bank intervention

Despite the continued uncertainty in markets, positive returns were seen across all Equity markets with returns to the Sterling investor boosted by the fall in the currency. Property returns were negative over the quarter whilst the Sterling based Commodities index return was negative due to the sharp depreciation of Sterling relative to the US Dollar. However Commodity returns in US Dollar terms continued to rise in the third quarter.

RESOLVED:

That the report be noted.

48. **INVESTMENT STRATEGY AND MANAGER SUMMARY**

Mr Harkin (Fund Investment Consultant – JLT Group) presented a report to update Committee on the performance of both the Fund's investment strategy and investment managers for the quarter ended 30 September 2016.

Mr Harkin reported that the Fund had experienced a strong quarter from an Investment Strategy perspective, with positive returns from all strategic asset classes except the Managed Account Platform. Key points included:

- during the quarter the Fund's total market value increased by £106.3 million to £1.587 billion.
- funding level information could not be provided due to a change in the discount rate methodology used for the 2016 Actuarial Valuation, the results of which have yet to be finalised.
- over the quarter, total Fund assets returned 8.1% compared with a composite target of 5.7%, an outperformance of +2.4%.
- a number of the Fund's investment managers outperformed their respective targets during the quarter with particularly strong performance from the Fund's "Best Ideas" portfolio. The previously poor three month performance of Investec had now started to recover.

RESOLVED:

That the report be noted.

49. **LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985 - TO CONSIDER THE EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED:

That the press and public be excluded for the remainder of the meeting for the following item by virtue of Paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

50. **INVESTMENT STRATEGY REVIEW**

Mr Harkin, Fund Investment Consultant – JLT Group, presented a report updating the Committee on the progress on implementing the Investment Strategy Review agreed at the 27th September 2016 Committee.

RESOLVED:

That the report be noted.

51. **ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC**

There were no members of the press or public in attendance.

(The meeting started at 10.00 a.m, and ended at 1.10 p.m.)

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Chairman