

**CLWYD PENSION FUND COMMITTEE**  
**20 SEPTEMBER 2017**

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold on Wednesday 20 September 2017.

**PRESENT:** **Councillor Dave Hughes (Chairman)**

Councillors : Billy Mullin, Ralph Small, Haydn Bateman

**CO-OPTED MEMBERS:** Councillor Huw Llewelyn Jones (Denbighshire County Council), Nigel Williams (Wrexham County Borough Council), Steve Hibbert (Scheme Member Representative)

**APOLOGIES:** Councillor Andrew Rutherford (Other Scheme Employer Representative)

**ALSO PRESENT (AS OBSERVERS):** Gaynor Brooks (Member representative Clwyd Pension Fund Board), Mark Owen (Employer representative Clwyd Pension Fund Board), Phil Pumford

**IN ATTENDANCE:**

Advisory Panel comprising: Colin Everett (Chief Executive), Gary Ferguson (Corporate Finance Manager), Philip Latham (Clwyd Pension Fund Manager), Karen McWilliam (Independent Advisor – Aon Hewitt), Kieran Harkin (Fund Investment Consultant – JLT Group) – (left after item 77), Paul Middleman (Fund Actuary – Mercer).

Officers/Advisers comprising: Debbie Fielder (Pensions Finance Manager), Alwyn Hughes (Pensions Finance Manager), Kerry Robinson (Principal Pensions Officer, Employer Liaison Team), Anthony Kershaw (Fund Investment Consultant – JLT Group), John Wright (Hymans Robertson), Sarah Spall (Consultant Assistant – Mercer - taking minutes), Mike Whitely and Mary Owen (Welsh Audit Office) – (for part of the meeting)

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.

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

Councillor Huw Llewelyn Jones declared a personal interest as being a member of the Clwyd Pension Fund for all items. He also declared an interest in relation to Item 6 (Clwyd Pension Fund Annual Report) which included information on an investment in a local project (Wholebake). Councillor Llewelyn Jones highlighted that he had been party to some matters relating to this Company as a result of his Councillor role at Denbighshire County Council. Karen McWilliam (Independent Advisor – Aon Hewitt) advised that she did not see anything on the agenda relating to this investment that would result in a conflict situation but that this should be added to the declarations as a potential conflict which should be monitored going forward if any matters regarding Wholebake are to be considered by the Committee.

Karen McWilliam, Paul Middleman (Fund Actuary – Mercer) and Sarah Spall (Consultant Assistant – Mercer) separately declared a personal interest in relation to Item 4 (Pooling Investments in Wales) as employees of Aon Hewitt/Mercer respectively with each firm having submitted a tender response to be the operator of the Wales Pool.

76. **MINUTES**

The minutes of the meeting of the Committee held on 23 June 2017 were submitted. Karen McWilliam noted that a training plan would be developed which included any training that members had missed.

**RESOLVED:**

It was agreed that the minutes could be received, approved and signed by the Chairman as a correct record.

The Chairman paid tribute to Cllr Ron Hampson who had recently passed away. The Chairman said that Cllr Hampson had been a key contributor to the work of the Pension Fund Committee and would be sadly missed.

77. **POOLING INVESTMENTS IN WALES**

Philip Latham (Clwyd Pension Fund Manager) explained that the recent JGC meeting was cancelled and explained that the PFC would need another special committee meeting to agree the appointment of the operator. Accordingly this item did no longer need to be treated as an exempt item.

**RESOLVED:**

The Chairman confirmed that this was the case and resolved that, contrary to the meeting agenda, the press and public would not be excluded from this item.

Before John Wright (Hymans Robertson) delivered a presentation about the Welsh Pool and the procurement process, Colin Everett (Chief Executive) asked whether, given the declarations of interests from Mrs McWilliam, Mr Middleman and Mrs Spalling, they needed to leave the room. Mr Latham indicated not as the presentation only covered information that was going to be in the public domain. Mr Everett was content with this, but stressed any discussions needed to be kept to generalities and Mrs McWilliam, Mr Middleman and Mrs Spalling should refrain from commenting on or participating in any of the discussion. Mr Wright confirmed this to be the case and that it would help reinforce the training the Committee had received the previous week.

Key points Mr Wright covered were:

- that Hymans Robertson were commissioned to officiate over the process only
- to confirm that the Welsh authorities had been ahead of the other pools in terms of working together, doing this ahead of the government announcement requiring pooling of assets

- to give background on why the Government chose the criteria that they did.

Mr Wright further commented that:

- there was a perception that the LGPS was paying too much to Investment Managers but it had since become clear that LGPS funds had negotiated good deals with them, on a par with private sector firms.
- further work has been done in the area of passive management as a way of reducing costs and it was noted that by working together, the eight Welsh Funds had made big savings.
- there was also an impression that some LGPS funds were not well managed, principally as they do not have the governance budget or expertise to do so effectively.
- some Funds have in-house management teams, so when Funds looked at pooling, some wanted to keep that in-house management.
- some other pools are setting up their own investment companies, with a mix of private sector investment specialists and existing specialists.

Mr Wright then explained how the Pool structure would work. For information he explained that the operator was who the administering authorities would be procuring. They would be using an ACS structure, which is a modern tax efficient structure.

Mr Wright confirmed that asset strategy decisions would still be determined at each PFC level, but it would then be for the operator to appoint the investment managers so those strategies could be implemented.

Bidders have already submitted tenders to be the operator, and once evaluated will go to the Chairman of the PFC, and the members of the JGC, with a recommendation. The JGC will then make a recommendation for approval, so effectively the eight Chairmen will report back to each individual Pension Fund within the Pool to make the final decision. Consequently, bidders will have to wait a long time before the final result is known.

Councillor Llewelyn Jones mentioned that the UK government would like the pools to invest in UK infrastructure but then asked what would happen if the Pool wanted to invest in non-UK infrastructure. Mr Wright said the Government could not dictate where to invest, so that option would still be open if there were attractive opportunities.

Mr Everett commented on a governance risk should all eight funds fail to agree with the operator choice. Evaluation needs, therefore, to be made on evidence based information only and under rigour such that every effort is made to resolve any queries or concerns in the event of there being no agreement.

The Chairman noted that pooling will be a standing item for PFC meetings going forward.

Councillor Bateman asked whether the individual Pension Funds would be forced into accepting specific managers. Mr Wright said that he expected there would be

an element of consultation with the Pension Funds but the Operator would be legally responsible for choosing and appointing Investment Managers.

Steve Hibbert (Scheme Member Representative) asked whether Investment Managers would be required to sign up to the Cost Transparency Code. Mr Wright said he expected that this would be a requirement.

The Chairman then asked the Committee to agree to taking Item 6 relating to the Annual Report and Accounts as the next item. The Committee agreed to the change in order of the agenda.

78. **CLWYD PENSION FUND ANNUAL REPORT, ACCOUNTS AND AUDIT 2016/17**

Debbie Fielder (Pensions Finance Manager) presented the annual report and accounts and explained the notes to the accounts given their complexity.

Mrs Fielder confirmed that the sign off deadline for the annual report was November so if there were any queries or suggested amendments, they could be included up to the date of signature. She also noted that the annual report and accounts are all in accordance with CIPFA Guidance. Mrs Fielder also noted that fees are under considerable scrutiny and whilst only certain fees are required to be disclosed in the accounts, in the view of full transparency, the Fund discloses the fees including underlying manager fees within the annual report.

The Chairman then invited Mr Whitely (Welsh Audit Office) to present the report of the audit of the accounts.

Mr Whitely explained there had been some initial problems with the audit of the accounts but confirmed there were no uncorrected misstatements. He highlighted that some of the points identified were not actually errors but were revisions to updated valuations which had been received after the accounts had been submitted to Wales Audit Office. In relation to paragraphs 13 & 14 the Audit Commission had received strong assurances from officers that, in future, the processes had been put in place to ensure the problems would not be repeated.

It was noted that there had been major improvements on the previous year's recommendations.

Councillor Bateman asked whether having up to date information regarding the valuation of assets was important. Mr Whitely said that the first draft of accounts are submitted in June so now that we are in September it was a management decision to adjust for the more accurate valuations but it would not have a major impact if management chose not to update the figures.

Mr Owen (Employer representative Clwyd Pension Board) said that the accounts were an extremely complex area and was happy that both sides have worked well together. Mr Owen also noted how pleased he was with the scheme member administration improvements over the last 12 months.

Gary Ferguson (Corporate Finance Manager) confirmed the accounts will be presented to the Council's Audit Committee next Wednesday.

Cllr Llewelyn Jones observed that there were still job vacancies and asked whether these were going to be resolved. The Chairman said that he had been reassured that work was being done to fill these vacancies.

**RESOLVED:**

1. Members noted and commented on the draft unaudited Annual Report and delegated finalisation to officers.
2. Members noted the management response to the external audit report.

79. **PENSION REGULATOR CODE OF PRACTICE**

Alwyn Hughes (Pensions Finance Manager) and Kerry Robinson (Principal Pensions Officer, Employer Liaison Team) presented the TPR's Code of Practice (COP). Mr Hughes was conscious that this would be the first time most of the PFC would have seen the compliance checklist. He explained that, whilst it takes a lot of resources, it was proving beneficial as it highlighted areas in which the Fund can improve.

Mr Hughes highlighted that some of the items in the checklist are best practice rather than regulatory but the checklist will be amended so that regulatory elements are highlighted.

Mrs Robinson highlighted that Section 1.04 of the covering report showed an overview of where the Fund was compliant with the numbers in brackets showing the previous year's results.

Mr Hughes and Mrs Robinson then went through the summary dashboard commenting on many of the areas that were shown as partially or non-compliant. It was noted that in some areas the Fund may choose to remain non-compliant e.g. training of new Pension Board members was carried out after appointment, rather than before which is what is suggested by the Code of Practice. The idea was to move to full compliance as soon as practicable in the areas identified as requiring action.

Mrs McWilliam highlighted that a statutory role of the Pension Board is to assist in assuring compliance with the Pension Regulator's requirements and so this will be on the next Pension Board agenda to look at in more detail and to develop an action plan.

**RESOLVED:**

1. The Committee considered the findings of the review.
2. The Committee noted that officers would collate a separate action plan for areas of ongoing compliance and development.

3. The Committee noted the officers will carry out further assessment during 2018 against this compliance checklist which would be reported back to the Committee and Pension Board.

80. **GOVERNANCE UPDATE**

Mr Latham noted that this is a standard report. Mrs McWilliam and Mr Latham commented that further consideration of the breaches are needed.

Cllr Bateman asked whether it was possible to have hard copy reports five working days before the meeting. Mr Latham said he would look into that.

Mr Owen had read the breaches and noted a small typo which required correcting.

Mr Hibbert asked whether committee packs were sent to Pension Board members for reading. Mr Hughes confirmed that these are emailed to the Board members.

**RESOLVED:**

1. The Committee considered the update and provided comments.

81. **LGPS UPDATE**

Mr Middleman presented the report which was for information but welcomed any questions for him or the rest of the advisers.

Cllr Llewelyn Jones mentioned that the Scottish LGPS had backdated their pensions with regard to the landmark rulings on survivor pensions and asked whether there was any information regarding England & Wales. He also asked about the closure of the Prudential Deposit Fund and whether there was another cash fund available.

Mr Middleman said that in relation to the AVCs, the Deposit Fund was closing to new members only but there was another cash fund for members to invest in if they choose to do so. Existing members contributing to the Deposit Fund will still have that option available.

In regard to the survivor rulings, as far as Mr Middleman was aware, England & Wales needed to look if anyone had been affected in the relevant period and then amend their benefits accordingly. Mrs McWilliam commented that DCLG has suggested LGPS administering authorities should identify the cases and then pay the benefits and there is no need for a change in LGPS regulations. However the LGA has written to LGPS administering authorities saying they do not agree and that there is an administering authority currently going through Court on a similar case. Accordingly advice from LGA is to identify any cases that may be affected and then hold off for a period to see how this develops.

Mr Hibbert (Scheme Member Representative) asked about the pending Fair Deal Regulations. Mr Middleman said that this was still under discussion

and could be by the end of the year but noted that these Regulations had been put back many times.

**RESOLVED:**

1. The PFC members noted this report and made themselves aware of the various current issues affecting the LGPS.
2. The members noted the ruling on survivor pensions and the potential actions discussed.

82. **PENSION ADMINISTRATION/COMMUNICATIONS UPDATE**

Mrs Robinson said that good progress is being made but it was acknowledged that some challenges remain on workflow and she confirmed that things would be back on track in due course.

Mr Hibbert noted that in the satisfaction survey there had been some concerns regarding communication of information. Mrs Robinson commented that as far as the administration team were concerned, there were no major issues and some of the negative feedback was centred on one or two isolated issues. However, all feedback was taken seriously and acted upon.

Members were given a copy of the Key Performance Indicators report. The Chairman asked members to consider and bring any questions to the next Pension Committee meeting.

**RESOLVED:**

1. The Committee considered the update and provided comments.
2. The Committee agreed a change to the Business Plan to include a new project on “aggregation” with potentially engaging Mercer to assist.

83. **INVESTMENT AND FUNDING UPDATE**

Mrs Fielder said that the business plan was on target and said that all the documentation in relation to the “opt up” process for MIFID II would be communicated to Investment Managers and Consultants by the end of September.

Mrs Fielder also reported that the outstanding transition as a result of the “light touch” investment review should be complete by the end of September. She also confirmed that they were progressing the appointment of the North America Private Credit Manager and the outcome would be reported to the next PFC meeting.

Work is still ongoing as regards Cost Transparency and Mrs Fielder said that three of the Funds traditional asset managers had signed up and they were just waiting for confirmation from a fourth.

**RESOLVED:**

1. The Committee considered and noted the update.

84. **FUNDING AND FLIGHT PATH UPDATE**

Mr Middleman gave a brief overview of the FlightPath and noted that he would expand further on the various elements of the framework over the coming meetings as a follow on from the recent training. The primary objective of the FlightPath is to achieve a fully funded position and more stable contribution requirements for the employers. Risk management is key to this and the level of hedging is important as the various “triggers” are intended to provide more stable outcomes. The level of hedging is ahead of where we expected to be when set up in 2014. This hedging is to give more stable return outcomes.

The key message is that the Fund is well ahead of target currently so maintaining this position has been the focus of the recent implementation of the equity protection in the Insight mandate.

Cllr Llewelyn Jones noted that a small reduction in the investment return gives reasonably big reduction in the funding level. It was agreed that this can be expanded on at the next Committee meeting.

**RESOLVED:**

1. The Committee noted the updated funding and hedging position for the CPF and the progress being made on the various elements of the Risk Management Framework.

85. **ECONOMIC AND MARKET UPDATE**

Mr Kershaw (Fund Investment Consultant – JLT Group) gave an update on the economic and market update for the quarter to 30 June 2017. He explained that most of the equity markets had produced good returns although US equities had struggled as had Hedge Funds and Commodities.

**RESOLVED:**

1. The Committee noted the Economic and Market Update.
2. The Committee noted how the information in the report effectively “set the scene” for what the Committee should expect to see in the Investment Strategy and Manager Summary report.

86. **INVESTMENT STRATEGY AND MANAGER SUMMARY**

Mr Kershaw gave an update of the Fund's investment strategy. As at 30 June the Fund's value increased by £66.3m giving a market value of £1.742bn.

Mr Kershaw remarked that the Private Markets portfolio was the star performer over the quarter. He also commented that one of the Diversified Growth managers, Investec, had also performed well over the quarter.

Mr Latham stated that investment returns had outperformed both benchmarks and actuarial targets over the last three years, however, Mr Middleman gave a note of caution that investment markets are unlikely to keep going up.

**RESOLVED:**

1. The Committee noted and discussed the investment strategy and manager performance over the quarter.
2. The Committee considered the information in the Economic and Market update report.

The meeting commenced at 14:00 and finished at 16:30.

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**Chairman**