

CLWYD PENSION FUND COMMITTEE
23 JUNE 2017

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 Friday, 23rd June, 2017

PRESENT: Councillor Dave Hughes (Chairman)

Councillors: Billy Mullin, Ralph Small, Haydn Bateman

CO-OPTED MEMBERS: Councillor Huw Llewelyn Jones (Denbighshire County Council) and Councillor Trevor Bates (standing in for Nigel Williams)

APOLOGIES: Steve Hibbert (Scheme Member Representative), Councillor Andrew Rutherford (Other Scheme Employer Representative), Councillor Ron Hampson, Councillor Nigel Williams (Wrexham County Borough Council), Debbie Fielder (Pensions Finance Manager), Alwyn Hughes (Pensions Finance Manager), Colin Everett (Chief Executive), Paul Middleman (Fund Actuary – Mercer).

ALSO PRESENT (AS OBSERVERS): Gaynor Brooks (Member representative Clwyd Pension Fund Board)

IN ATTENDANCE:

Advisory Panel comprising: Gary Ferguson (Corporate Finance Manager), Philip Latham (Clwyd Pension Fund Manager), Karen McWilliam (Independent Advisor – Aon Hewitt), Kieran Harkin (Fund Investment Consultant – JLT Group)

Officers/Advisers comprising: Helen Burnham (Pensions Administration Manager), Nick Buckland (Fund Investment Consultant – JLT Group), Nikki Gemmell (Support Actuary – Mercer) and Sarah Spall (Consultant Assistant – Mercer) taking minutes.

Prior to the start of the meeting the new Chair asked everyone to introduce themselves as there were new members of the Pension Fund Committee. Haydn Bateman mentioned that Councillor Ron Hampson was very ill and asked if a get-well card could be sent to him on behalf of the Clwyd Pension Fund Committee.

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

Mrs McWilliam (Independent Advisor – Aon Hewitt) gave a presentation regarding the Pension Fund's Conflict of Interest Policy and declarations of interest register. (A copy of the presentation was handed out to members). She explained that all Committee Members and officers are required to complete declarations of interest forms. She explained that for Councillors, this is in addition to the declarations of interest requirements as included in the Councils' Code of Conducts.

Mrs McWilliam said PFC members have to be mindful of potential conflicts of interest when making decisions related to the Clwyd Pension Fund. Examples include:

- Every three years an actuarial valuation of the Pension Fund is carried out and if there is not enough money in the Fund, then employer contributions may have to increase. Employers have to think about affordability and what impact it will have on their budgets. In particular, councillors have to wear two hats; the role on the Committee is to safeguard the Pension Fund rather than to consider the impact on their individual Councils budgets.
- They need to act in the best interest of the members e.g. if there is an opportunity to invest in a new Council building then they need to make sure it is right for the Pension Fund rather than the Council.

The policy requirements also apply to the officers and the advisors (e.g. investment advisors should be open and transparent when providing advice that could lead to more business for their firm).

Mr Latham (Clwyd Pension Fund Manager) handed out declaration of interest forms.

Councillor Small asked about family members who work for Flintshire County Council and whether they had to be declared. Mrs McWilliam said yes as they could be a member of the LGPS (or could potentially be eligible in the future).

Councillor Llewelyn Jones declared a personal interest as being a member of the Clwyd Pension Fund for all items.

71. **MINUTES**

The minutes of the meeting of the Committee held on 21 March 2017 were submitted.

RESOLVED:

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

72. **APPOINTMENT OF VICE CHAIR**

Councillor Bateman was put forward by Councillor Mullin to be Vice Chair of the Pension Fund Committee. This was seconded by Councillor Small and agreed by all of the Committee.

73. **CLWYD PENSION FUND UPDATE**

Mr Latham provided an update on the Pension Fund. He highlighted that he has reduced the number of reports under this agenda item given the new members to the PFC but said that these would be picked up as part of the Committee training.

Mr Latham asked if everyone was available on 19 July for the first day of training on Governance; this was agreed by all members. The second training day will be on funding occurring the week beginning 24 July, and this will be provided by the Fund Actuary.

Mr Latham informed the Committee that due to positive investment returns, the Pension Fund was 86% funded as at 31 March 2017. Nikki Gemmell (Support Actuary – Mercer) said that the funding position had improved further from the stated position in the papers – funding position was 89% at the end of May and was up to c90% funded in the last couple of days. Kieran Harkin (Fund Investment Consultant – JLT Group) said that the value of the Fund's assets was £1.746m as at end of May. Mr Latham noted that the current funding level was as high as he had ever known.

Mr Latham drew attention to the issue on pages 32/33 of the papers as they are identical; he noted that page 32 is incorrect. He said that it was regarding the ongoing monitoring of Fund Managers and there is nothing significant to highlight at the meeting.

Mr Latham distributed a document from LAPF Investments regarding pooling which members might find useful. Mr Latham and the Chair will be travelling to Cardiff on Thursday for the first Joint Governance Committee meeting. The Wales Pool will be known as the Wales Pension Partnership.

Mr Latham said there was still some work to do regarding the Workforce planning of the Administration Section and the reorganisation of resources with succession planning and business continuity a focus. He drew the Committee's attention to Appendix 4 which shows the current structure and proposed structure for the Technical section. The additional cost following the restructure is minimal.

Councillor Bateman asked who the Lead Technical Development Officer was. Mrs Burnham confirmed this is a new position in the Technical Team and will be ring-fenced within the existing team. Mrs Burnham said that due to someone retiring they needed to restructure this sooner rather than later. They are only looking at the Technical Team at the moment but going forward will look at the wider team as well.

Ms Brooks said that if it helped the new Committee members, the CPF Board had been looking at workforce planning within the Fund's staffing and supported any changes that would assist the team meeting the requirements of the business plan.

RESOLVED:

- (a) That the Committee considered the update and provide any comment;

- (b) That the Committee approve the revised organisation structure for the Technical Team and ring-fence the appointment of the Lead Technical Officer.

74. **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 exempt information under paragraph 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

75. **MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE II (MIFID II)**

Mr Harkin gave a brief update on MIFID II and then handed over to Mr Buckland to go through the presentation as training for new members, and to clarify it for existing members. He then proceeded to talk through the details of the slides.

Mr Buckland highlighted the key points including informing them that the implementation of the MIFID II directive has been pushed back to January 2018, and that it will, on paper, increase the protection to local authorities as they will now be classed as “Retail clients” rather than “Professional Clients”. However, the “Retail classification” will mean that local authorities will not be able to access complex investment products anymore. There will be a process to “opt-up” to “Professional Client” status, although the details of the process are yet to be confirmed. Concerns were raised about how the Clwyd Fund could prove the criteria required to opt up to be a professional client, and what the impact would be.

Mr Buckland noted that MIFID II also has implications for pooling as some local authorities within the same pool may be classed as professional clients whereas others will be retail clients. It was noted that Jeff Houston, of the LGA, has raised the issue that the LGPS could not invest in infrastructure as retail clients which is one of the aims of pooling.

Mr Harkin said that there will be more detailed investment training coming up regarding investments but if MIFID II was implemented in the way it was originally proposed, there could be serious impacts on funds which could cause the fire sale of assets e.g. retail clients would not be able to invest in some of the alternative assets (listed as real assets and private markets on page 15 of the slides).

Councillor Bateman asked whether Brexit would have an impact on MIFID II. Mr Harkin said it could have future implications but whilst the UK is still in the European Union, MIFID II will be in place. Councillor Bateman then asked if this was built into UK law; Mr Harkin said that as MIFID II would be coming into effect in January 2018, the UK would still be in the European Union and so would still be impacted regardless.

It is expected that the FCA will respond back on the consultation by end of June and the hope is that the opt-up procedure will be simplified and that the Clwyd Fund will be in a good position to do this.

Mr Latham said that the LGA have been working with fund managers to enable the local authorities to have a standard set of documents, so whilst all LGPS will have to complete them, they will be consistent documents. The recommendation is that Flintshire County Council in its role as administering authority to the Clwyd Pension Fund opts up to professional status and that the Chief Executive be delegated the authority to take forward the application process with fund managers and advisers to “opt up” the Pension Fund.

Councillor Bateman asked whether MIFID II would definitely go ahead. Mr Buckland said he had not heard anything that would make him think otherwise. Mr Latham made a point that this has been pushed back repeatedly but Mr Buckland believes that this is to ensure that everything is done correctly.

Mrs McWilliam asked the question that even though Funds may opt-up, was there still a risk that investment managers still see the Funds as a risk to them and continue to treat Funds as retail clients e.g. walk away as it may not be worth the increased compliance burden. Mr Buckland said yes, there could be some boutique investment managers that may take that view.

RESOLVED

- (a) That the Committee notes the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018.
- (b) That the Committee agrees to the commencement of applications for elected professional client status with all relevant institutions, as soon as the FCA handbook is approved, in order to ensure it can continue to implement an effective investment strategy.
- (c) In electing for professional client status, the committee acknowledges and agrees to forgo the protections available to retail clients.
- (d) That the Committee agrees to approve delegated responsibility to the Chief Executive for the purposes of completing the applications and determining the basis of the application as either full or single service.

The meeting commenced at 10:00 and finished at 11:40. The Chair noted that it was important to get all the necessary training done as it had been a steep learning curve.

.....
Chairman