

Minutes



To: All Members of the Pensions Committee

From: Legal, Democratic & Statutory Services
Ask for: Stephanie Tarrant
Ext: 25481

PENSIONS COMMITTEE 27 JUNE 2017

ATTENDANCE

MEMBERS OF THE PENSIONS COMMITTEE

S J Boulton, D S Drury, M A Eames-Petersen (Substituted for J G L King), J M Graham, C M Hayward (Vice- Chairman), A J S Mitchell, R G Parker, S Quilty, R Sangster, J D Williams (Chairman)

MEMBERS OF HERTFORDSHIRE DISTRICT/BOROUGH COUNCILS (NON-VOTING)

J Lloyd, K Ayling, M Freeman

Upon consideration of the agenda for the Pensions Committee meeting on 27 June 2017 as circulated, copy annexed, conclusions were reached and are recorded below:

Note: No conflicts of interest were declared by any member of the Committee in relation to the matters on which conclusions were reached at this meeting.

PART I ('OPEN') BUSINESS

1. MINUTES

1.1 Minutes (Part I) of the meeting of the Pensions Committee held on 31 March 2017 were confirmed as a correct record and signed by the Chairman.

1.2 Members noted that the actions recorded in the minutes had all been completed.

2. PENSIONS COMMITTEE WORK PLAN FOR REMAINDER OF 2017-18

[Officer Contact: Patrick Towey, Head of Specialist Accounting, Tel: 01992 555148]

2.1 Members reviewed a report which summarised the governance and responsibilities of the Pensions Committee and gave an overview of the planned agenda items for the remainder of 2017-18.

ACTION

2.2 Members acknowledged that there were six planned meetings for the remainder of 2017/18, four formal and two informal meetings. The informal meetings, due to be held 31 October 2017 and 22 March 2018, would include engagement with investment managers and training for Members.

Decision

2.3 The Pensions Committee noted the content of the report.

3. RISK AND PERFORMANCE

[Officer Contact: Jolyon Adam, Finance Manager, Telephone: 01992 555078]

3.1 Members reviewed a report which provided the quarterly update on Risk and Performance for the Pension Fund for the period 1 January to 31 March 2017.

3.2 The Committee noted the risk register which summarised the four key risk areas. Members acknowledged a correction to the first paragraph, as the Inter Authority Agreement was due for sign off by the end of the week. It was also noted that there was a transition plan paper in relation to the 2017 Investment Strategy being presented to the June 2017 meeting.

3.3 Members noted that the preparation of annual benefit statements had commenced, with the Local Pensions Partnership issuing charges where information was submitted late by scheme employers.

3.4 The Committee acknowledged Table 3 in the report and noted that the number of scheme employers in the red risk category had fallen from 59 to 56 this quarter and that the net assets/liabilities had been updated with the latest funding position from the 2016 valuation results. Clarification was given regarding the employer numbers reported. There were 289 active employers in the scheme, whilst the total number of admission agreements being monitored was 361, as each employer could have multiple admission agreements for multiple contracts.

3.5 Members acknowledged that employers were most commonly in the red risk category due to having outstanding admission agreements, with further details listed in Appendix A. Members commented that Appendix A did not identify the actual organisation and it was advised that the information could potentially be included in future part II reports, that would also allow for more granularity around the employers with outstanding admission agreements. It was also noted that Appendix A only covered 23 of the 55 employers in the red category and it was agreed that a new format to the report would be considered to include all employers rated in this category.

Finance
Manager

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- 3.6 Members discussed the Key Performance Indicators at Section 7 of the report and noted that the final annual report and accounts for 2016/17 would be presented to the Committee in September 2017. Members acknowledged the Internal Audit Report at Appendix B of the report.
- 3.7 The Committee discussed the five penalty charges raised this quarter against two scheme employers and queried if the employers were repeat offenders. Members heard that this information was not available to hand but it was noted that the Pensions Board were closely monitoring employer performance as a part of their responsibilities.
- 3.8 Members expressed concerns about the backlog of Defined Benefit cases and were assured by the Local Government Pension Board and Unison Member that the situation was also being managed by the Pensions Board.

Decision

- 3.9 The Pensions Committee noted the content of the report.

4. PENSION FUND ASSET POOLING – ACCESS UPDATE

[Officer Contact: Patrick Towey, Head of Specialist Accounting, Tel: 01992 555148]

- 4.1 Members reviewed a report updating on the activities undertaken by the ACCESS group. Members heard that following the meeting on 7 March 2017, where the Committee agreed to enter into an Inter Authority Agreement, agreement had been progressed and would be signed and sealed by the end of the week. Members noted that all 11 Members of the ACCESS Pool had agreed to the creation of a Joint Governance Committee and that from the representatives from each Pensions Committee, a Chair would be selected.
- 4.2 The Committee noted that ACCESS were in the process of procuring an operator and that officers had begun taking legal advice to consider how many sub funds were to be included. Members noted that a third party was being commissioned to review all mandates and benchmarks, to reach a framework of common characteristics and this had delayed procurement by around two months. The contract was due to be awarded by January 2018 - within the Government's 1st April 2018 timescale.
- 4.3 Members discussed the preferred choice for sub funds and regular meetings with the operator which, together with quarterly performance reports, provided opportunities to address fund performance.
- 4.4 In response to a Member question on whether each sub fund would

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have a single manger, Members heard that there could be several managers within each sub fund and that the Committee would be able to choose from the available managers. It was noted that the more managers a sub fund had the more costs there would be.

- 4.5 Members queried whether fund managers would still be invited to meet with the Committee and it was noted that this was expected to be the case, as the operator would manage the sub fund but the investment decisions remained with the Committee. It was noted that managers were keen to maintain relationships with Committees.
- 4.6 Members discussed the risks of pooling and it was advised that if another authority made poor investment decisions it would not impact on Hertfordshire's investments. It was noted that ACCESS allowed pooling the economies of scale and that the Pension Fund would still set and maintain its own Investment Strategy.
- 4.7 The Committee discussed the scope to extend sub funds and it was acknowledged that if the sub funds available at that time could not meet the Pension Funds requirements then certain asset classes could be delivered alongside the pool.
- 4.8 Members clarified that at 7.4 of the report, only a single provider to ACCESS pool members would be appointed from the four passive providers listed at 7.2 of the report.

Decision

- 4.9 The Pensions Committee noted the content of the report.

5. REVIEW OF VOTING POLICY AND IMPLEMENTATION

[Officer Contact: Nick Sykes, Mercer]

- 5.1 Members reviewed a report from Nick Sykes of Mercer reviewing the Fund's policy for exercising voting rights together with a proposed implementation approach.
- 5.2 Members were advised that the Pension Fund held around £2.3 billion in equities which had shareholder voting rights attached. Currently a third party had been contracted to vote on behalf of the Fund, as in the past it was considered that fund managers often failed to vote on the shares owned on behalf of clients and failed to hold company managements to account. It was however noted that generally, the Fund's managers now had robust governance and comprehensive voting policies in place.
- 5.3 Members noted that the recommendation was to review the fund managers' voting policies and track record prior to implementing the proposed approach.

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5.4 In response to a Member question, it was advised that the change to the voting policy would save £8,000 per year.

Decision

5.5 The Pensions Committee noted and agreed the recommendations as detailed in the Mercer report.

6. INVESTMENT STRATEGY

[Officer Contact: Nick Sykes & Catrina Arbuckle, Mercer]

6.1 Members received a report from Nick Sykes and Catrina Arbuckle of Mercer setting out the considerations and conclusions of the Investment Strategy Working Group, the status of Fund's 65/35% growth assets/bonds target allocation and a proposal to start building a 'Real Assets Portfolio'.

6.2 Members noted the Working Group's preference for a portfolio with 65% in growth assets of which 10% would be in 'real assets' and 35% in bonds.

6.3 Page 13 of the report set out plans to transition 10% of the Fund's equities to a portfolio of 'real assets' targeting high lease to value property, private rented sector and infrastructure debt. Members noted that the asset classes being considered were not quick to access and that careful consideration needed to be given to which equity holdings should be reduced and when.

6.4 In response to a Member question on how the strategy may affect ACCESS and costs in the future and were advised that the particular types of real asset being considered were not going to be looked at by ACCESS for two to three years. The Committee heard that some members of ACCESS had already invested in additional asset classes and were seeing the benefits.

6.5 Members discussed whether the Pension Fund should invest in the same asset classes as other members of ACCESS and it was noted that there would be some common fund managers as there were not many managers specialising in 'real assets'.

6.6 The Committee agreed that a Cross-party Member Working group was to be re-established to advise and develop the asset portfolio. Members were to advise the service which Member from each party would participate in the sub-group, for meetings to commence in August 2017.

Decision

6.7 The Pensions Committee noted and agreed the proposed next steps as set out on pages 16/17/18 of the Mercer report.

Members/
Head of
Specialist
Services

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EXCLUSION OF PRESS AND PUBLIC

Decision

That under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the said Act and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

PART II ('CLOSED') AGENDA

- 1. PENSION FUND – FUNDING AND INVESTMENT REPORT
(Formerly PERFORMANCE REPORT) AS AT 31 MARCH 2017**

Decision

The Minute for this item of business is set out in the separate Part II Minutes.

**KATHRYN PETTITT
CHIEF LEGAL OFFICER**

CHAIRMAN _____

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