

# Agenda



**AGENDA for a meeting of the PENSIONS COMMITTEE to be held in COMMITTEE ROOM B, County Hall, Hertford on TUESDAY, 31 OCTOBER 2017 at 10:00AM**

## **MEMBERS OF THE COMMITTEE (10) - QUORUM 3**

S J Boulton, D S Drury, J M Graham, T R Hutchings (substituting for C M Hayward), J G L King, A J S Mitchell, R G Parker, S Quilty, R Sangster, J D Williams (Chairman)

## **REPRESENTATIVES OF HERTFORDSHIRE DISTRICT / BOROUGH COUNCILS (3) (NON-VOTING)**

J Lloyd, K Ayling, M Freeman

### Invitees:

Colm O'Callaghan, District Finance Representative

Meetings of the Committee are open to the public (this includes the press) and attendance is welcomed. However, there may be occasions when the public are excluded from the meeting for particular items of business. Any such items would be taken at the end of the public part of the meeting and listed under "Part Two ('closed') agenda".

Committee Room B is fitted with an audio system to assist those with hearing impairment. Anyone who wishes to use this should contact main (front) reception.

**Members are reminded that all equalities implications and equalities impact assessments undertaken in relation to any matter on this agenda must be rigorously considered prior to any decision being reached on that matter.**

### **Members are reminded that:**

- (1) if they consider that they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting they must declare that interest and must not participate in or vote on that matter unless a dispensation has been granted by the Standards Committee;**
- (2) if they consider that they have a Declarable Interest (as defined in paragraph 5.3 of the Code of Conduct for Members) in any matter to be considered at the meeting they must declare the existence and nature of that interest but they can speak and vote on the matter**

## **PART I (PUBLIC) AGENDA**

### **1. MINUTES**

To confirm the minutes (Parts I and II) of the Pensions Committee meeting held on 4 September 2017.

## **PART II ('CLOSED') AGENDA**

### **EXCLUSION OF PRESS AND PUBLIC**

The Chairman will move:-

*“That under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves 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. PANTHEON VENTURES (UK) LLP - PRIVATE EQUITY TRAINING AND PORTFOLIO AND PERFORMANCE PRESENTATION**
- 2. HARBOURVEST PARTNERS (UK) LTD - PRIVATE EQUITY TRAINING AND PORTFOLIO AND PERFORMANCE PRESENTATION**
- 3. REVIEW OF PRIVATE EQUITY PORTFOLIO**

**If you require further information about this agenda please contact Stephanie Tarrant, Democratic Services Officer, on telephone no (01992) 555481 or e-mail [Stephanie.tarrant@hertfordshire.gov.uk](mailto:Stephanie.tarrant@hertfordshire.gov.uk)**

Agenda documents are also available on the internet at:

<https://cmis.hertfordshire.gov.uk/hertfordshire/Calendarofcouncilmeetings.aspx>

*For further information about the issues covered in these reports please contact Patrick Towey on 01992 555148.*

**KATHRYN PETTITT  
CHIEF LEGAL OFFICER**

# Minutes



To: All Members of the Pensions Committee

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

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## **PENSIONS COMMITTEE 4 SEPTEMBER 2017**

### **ATTENDANCE**

#### **MEMBERS OF THE PENSIONS COMMITTEE**

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

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

J Lloyd, K Ayling

Upon consideration of the agenda for the Pensions Committee meeting on 4 September 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 27 June 2017 were confirmed as a correct record and signed by the Chairman.
- 1.2 Members noted that gratitude was expressed to Nick Sykes from Mercer for his contribution to the Pensions Committee and the Hertfordshire Fund on his retirement.

#### **2. HERTFORDSHIRE PENSION FUND - AUDIT RESULTS REPORT** [Officer Contact: Jolyon Adam, Finance Manager, Telephone: 01992 555078 / Richard Page, Executive Director, For and on behalf of Ernst & Young LLP]

- 2.1 Members reviewed the draft Hertfordshire Pension Fund Audit Results Report, which was undertaken and produced by Ernst & Young LLP.

#### **ACTION**

- 2.2 Members noted page 6 of the report, which highlighted that there were no significant audit differences and that only non-material changes had been highlighted. It was noted that this audit report outcome was a strong testament to the Pensions Team and the report reflected the high standard to which the accounts had been produced.

**Decision**

- 2.3 The Pensions Committee welcomed and noted the content of the report.

**3. RESPONSE TO THE AUDIT RESULTS REPORT 2016/17 – PENSION FUND**

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

- 3.1 Members reviewed a report which set out the letter of representation for Hertfordshire County Council to Ernst & Young in response to the draft Audit Results Report for the Pension Fund.
- 3.2 Members heard that the service was very pleased with the content of the Audit Results Report and that the letter reflected this.

**Decision**

- 3.3 The response to the Audit Results Report 2016/17 for the Pension Fund was approved, and the Letter of Representation should be signed by the Director of Resources and Chairman of the Audit Committee.

**4. PENSION FUND ANNUAL REPORT AND STATEMENT OF ACCOUNTS 2016/17**

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

- 4.1 The Committee received a report in relation to the audited Pension Fund Annual Report and Statement of Accounts for 2016/2017 and were invited to comment on the report, as attached at Appendix A to the report. Pensions Committee were also requested to review and approve the revised Governance Compliance Statement (GCS), as attached at Appendix B to the report.
- 4.2 The Annual Report gave an overview of the value of the Pension Fund and the key movements in the 12 months to 31<sup>st</sup> March 2017. This included highlighting changes within the Fund Account and Net Assets Statement.
- 4.3 Members welcomed the increase in the value of the Pension Fund

during 2016/17 and acknowledged the input from the Fund Managers and Officers in achieving these excellent results.

4.4 In response to a Member question regarding management expenses for Senior Officer's time; the County Council incurred costs of £424,695 in relation to the management of the Pension Fund, and was reimbursed by the Fund for these expenses (including staff salaries, legal fees etc). Of this sum £15,064 related to Senior Officer (Section 151) apportioned salary.

4.5 Members discussed the investment performance for the year, of 17.8% against a benchmark of 17.9%. Whilst performance was positively received it was acknowledged that a year was a very short period over which to consider returns. The Committee were reminded that over a quarter of the fund was in passive management delivering benchmark returns and that whilst some active managers had been exceeding benchmarks, other managers' performance had been impacted by Brexit. Members noted that the active managers played an important part in the Fund's investment strategy and that underperforming managers had been challenged on their performance.

4.6 In response to a Member question on how the Fund's performance compared over a period of time in relation to active and passive management, it was advised that this was regularly analysed, and that further information could be presented to a later Panel Meeting.

Jolyon  
Adam,  
Finance  
Manager/  
DSO to note

4.7 Members discussed what had been done differently in 2016/17 to 2015/16 to achieve better results and it was noted that the asset allocation chosen and decisions made this year had contributed to the increased performance. Equity markets had also experienced a good year which benefited the Fund.

4.8 The Committee discussed the liability status for ceased employers. It was noted that none of the liabilities were included in the accounts but were however captured by the actuary and were monitored through the funding level, with enough assets held back to meet the benefits required.

4.9 In response to a Member question on how much information the Committee had in relation to forecasting retirement, it was noted that all calculations were based on a survival curve for each member and that this analysis was provided by the Fund's actuary. It was also advised that the Pensions administrator LPP managed communication with members of the scheme and that the Pension Board reviewed this policy. Fund members were also able to find out their pension entitlements from their annual benefit statements.

4.10 Members noted the updates to be made to the Governance Compliance Statement (Appendix B), as detailed at 5.3.2 of the

report.

**Decision**

- 4.11 The Pensions Committee noted and commented, as above, on the audited Report and Accounts for 2016/17, and approved the revised Governance Compliance Statement provided at Appendix B.

**5. COMMUNICATION POLICY STATEMENT 2017**

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

- 5.1 Members reviewed a report which set out updates and changes to the reviewed Communication Policy Statement, which was last updated in 2014.
- 5.2 Members noted that the policy set out the information provided to pension members, how the Fund communicates with members and frequency of communication. The Committee noted the key changes at section 4 of the covering report.

**Decision**

- 5.3 The Committee approved the 2017 Communication Policy Statement, attached at appendix A.

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

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

- 6.1 The Committee reviewed a report which provided an update on recent developments regarding the Financial Conduct Authority's (FCA) final policy statement on the Markets in Financial Instruments Directive II (MiFID II).
- 6.2 Members heard that under certain criteria from MiFID I, local authorities were able to be classed as professional clients, which gave them access to a wider number of asset classes, however, with the introduction of MiFID II, the proposals looked set to remove that status and local authorities would be treated as retail investors.
- 6.3 Following consultation, the FCA have recognised how Local Government Pension Funds operate and have reflected in their revised MiFID II guidance and criteria that Pensions Funds can "opt-up" from *retail client* to *elective professional status* and attain a similar status to that, which was held, under MiFID I.
- 6.4 In response to a Member question on what effect MiFID II would have on the ACCESS group, Members were informed that all ACCESS Funds would elect to have professional status with their investment

managers and that the current position would remain unchanged subject to the managers being satisfied that the Funds meet the criteria. In the future, once the ACCESS Operator is in place, the fund will be required to opt up with the Operator, as this acts as the FCA regulated vehicle, but will be required to opt up with individual fund managers unless they manage assets held outside of the pool.

### **Decision**

6.5 The Pension Committee noted the content of the report and gave approval for officers to complete the necessary actions with its investment managers to achieve *elective professional* status for the Fund w.e.f. 3 January 2018.

### **7. PENSION FUND ASSET POOLING – ACCESS UPDATE**

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

7.1 Members reviewed a report that provided an update on the activities undertaken by the ACCESS group. Members heard that since the meeting on 27 June 2017, the Joint Governance Committee had been established, with the first meeting held on 31 July 2017. It was noted that Cllr Andrew Reid (Suffolk) was elected as Chairman and Cllr Richard Stogdon (East Sussex) Vice-Chairman until 31 July 2019. Both of these appointments were supported by the Chair of Hertfordshire's Pension Committee. It was noted that papers relating to the meeting were available via Kent County Council, the hosting authority.

7.2 Members were advised that the first Joint Governance Committee considered an update on the procurement of an external operator, and confirmed the need to put in place plans and a budget for the ACCESS pool

7.3 The Committee discussed how the Pension Fund could avoid being exposed to underperforming asset class fund managers used by the ACCESS pool. Members were advised that the operator would be held to account for any underperforming fund managers. Further, the operator was expected to provide a range of different active sub-funds and therefore the Committee might choose to move to another sub-fund or the pool's passive arrangements. Performance concerns could result in the operator being asked to change the manager. Officers confirmed that they were confident that the operator could be held to account and that the mechanism for managing performance was available.

7.4 Members asked about the passive procurement, and were advised that the passive mandates were held in the form of a Life Policy that could not be pooled under Authorised Contractual Scheme (ACS). Members heard that all of the ACCESS member funds passive assets

would be pooled and managed by a single manager under the ACCESS governance model, which would provide significant savings for the fund.

7.5 Members discussed the financial implications of setting up the ACCESS Pool and the change of legal advisors. It was advised that the legal advisors had been changed during the process in order to gain more specialist advice on the procurement of an operator.

7.6 Members noted an error at 7.5 of the report. It was confirmed that the recommendation to award the operator contract would be brought to local funds by mid-November 2017, with the contract signature due early 2018 (opposed to 1<sup>st</sup> November 2017 as detailed in the report).

### **Decision**

7.7 The Pensions Committee noted the content of the report.

## **8. REVIEW OF EQUITY MANAGER VOTING AND ENGAGEMENT** [Officer Contact: Catrina Arbuckle, Mercer]

8.1 Members received a report from Catrina Arbuckle of Mercer setting out the considerations and conclusions into the review of equity manager voting and engagement.

8.2 The committee were advised that the report set out how well placed equity managers were to vote on behalf of the Pension Fund based on their policies and their compliance with the UK Stewardship Code.

8.3 Members noted that all of the Fund's Managers complied with the Stewardship Code at the highest level and that Baillie Gifford and Legal and General were the highest rated managers in compliance and engagement with the code.

8.4 The Committee acknowledged that the main voting company period took place during Quarter 1 and Quarter 2 and it was advised that following this period a more detailed review should be undertaken on the Managers voting behaviour. It was noted that where a manager voted against management recommendations on company resolutions, a full assessment for their reasons for doing so should be undertaken.

### **Decision**

8.5 The Pensions Committee agreed to the proposed next steps, as detailed on page 9 of the Mercer report.

## **9. RISK AND PERFORMANCE** [Officer Contact: Jolyon Adam, Finance Manager, Telephone: 01992 555078]



- 9.1 The Committee reviewed a report which detailed the quarterly update on Risk and Performance for the Pension Fund for the period 1 April to 30 June 2017. Members noted that appendices A & B to the report were to be considered as an item on the Part II agenda.
- 9.2 Members noted that there was going to be a report presented to the Local Government Pensions Board in September 2017, which reviewed the Pensions Board Constitution and changes would require agreement at full Council.
- 9.3 The Committee acknowledged that the process for the annual benefit statements exercise had concluded by the deadline of 31 August 2017.
- 9.4 Members were informed that the Pensions Board was working closely with The Local Pensions Partnership (LPP) with regards to new complaints raised.
- 9.5 The Committee discussed the Risk Register and commented on the RAG rating used at 4.2 of the report. It was advised that the detail shown in the report was a summary of a more detailed Risk Register, which was reviewed by the Pensions Board and then referred to the Committee if required.
- 9.6 Members discussed Table 3 on page 5 of the report and it was advised that employers could still fall in the red category despite having net assets, as there were a number of other reasons that could trigger a high risk score.

**Decision**

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

**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. RISK AND PERFORMANCE – APPENDICES A & B**

**Decision**

**CHAIRMAN'S  
INITIALS**

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

**2. 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.

**3. CASH FLOW MODELLING**

**Decision**

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

**KATHRYN PETTITT  
CHIEF LEGAL OFFICER**

**CHAIRMAN \_\_\_\_\_**