

## **CUMBRIA PENSIONS COMMITTEE**

Minutes of a Meeting of the Cumbria Pensions Committee held on Tuesday, 23 June 2020 at 9.30 am. This was a virtual meeting.

### **PRESENT:**

Mr MH Worth (Chair)

### **County Councillors**

Mr J Airey	Mr P Thornton
Mr SB Collins	Mr M Wilson
Dr S Haraldsen	Mrs HF Carrick
Mr NH Marriner (Vice-Chair)	

### **District Council Representative**

Mr J Mallinson

### **Employee Representatives**

Mr J Keith

### **Other Representatives:-**

Mrs C Scott	- Investment Advisor
Mr A Sutherland	- Investment Advisor

### **Also in Attendance:-**

Ms A Clark	- Senior Manager - Pensions and Financial Services (Deputy S151 Officer – Pensions)
Mrs J Crellin	- Director of Finance (Section 151 Officer)
Mr P George	- Group Finance Manager - Pensions, Investments and Insurance
Ms D Purvis	- Finance Manager - Pensions & Treasury
Ms L Taylor	- Finance Manager - Pensions Investments and Governance

## **PART 1 – ITEMS CONSIDERED IN THE PRESENCE OF THE PUBLIC AND PRESS**

### **90 ROLL CALL AND APOLOGIES FOR ABSENCE**

The Chair started the meeting by noting the sad news of the passing of Councillor Lawrence Fisher. The Committee showed their respects by holding a minute's silence in his honour.

A roll call of Members and Officers was taken.

## **91 TERMS OF REFERENCE AND MEMBERSHIP**

The Terms of Reference of the Committee was noted.

Mrs Carrick attended as a substitute Member of the Committee for this meeting only.

The Chair advised that this was Clare Scott's first meeting as Independent Advisor to the Committee.

## **92 DISCLOSURES OF INTEREST**

No disclosures of interest were made at the meeting.

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

RESOLVED, that the press and public be excluded from the meeting during consideration of the following reports as they contain exempt information relating to the financial or business affairs of any particular person (including the authority holding that information) by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972;

9. Pension Fund – Investment in Multi Asset Credit

10. Closing Comments

## **94 MINUTES**

RESOLVED that, the Minutes of the meeting held on 13 March 2020 be approved as a correct record.

## **95 REPRESENTATION FROM NON COUNTY COUNCIL EMPLOYERS AND DISTRICT COUNCILS**

There were no representations made at this meeting of Cumbria Pensions Committee.

## **96 SCHEDULE OF FUTURE MEETINGS**

The schedule of future meetings that had been published with the Agenda was noted.

## **97 PENSION FUND UPDATE - PART 1**

A report was considered from the Director of Finance (S151 Officer) which gave a Pension Fund Update for items which could be discussed in the public domain. The report provided Members with information which supported the report's recommendations which was to ensure compliance with amendments to LGPS regulations regarding exit credits for employers within the LGPS and to approve the draft unaudited accounts of the Cumbria LGPS for 2019/20.

The Senior Manager – Pensions and Financial Services reported on Exit Credits. She reported that in February 2020, the LGPS Regulations were amended to rectify an anomaly related to admission bodies leaving the Pension Fund.

In May 2018, LGPS Regulations were amended to require Funds to pay an 'exit credit' where an exiting employer's net Funding Position within the Fund exceeded 100%. However, this took no account of any risk-sharing arrangements that some employers had with their letting authorities. This led to the scenario where an employer may have been protected through a risk sharing arrangement during their term in the LGPS but also benefitted from receipt of an exit credit at termination.

Members were informed that MHCLG had recognised this issue and in February 2020, issued amendments to the Regulations. The changes gave Administering Authorities the discretion to determine what, if any, exit credit was payable. Officers had worked with the Actuary to reflect the changes to regulations in the Fund's Admission and Termination Policy. Members noted that as well as the policy being updated, there were a few minor adjustments associated with the 2019 valuation. The changes to the policy were subject to the outcome of a consultation with the Fund's employers.

In relation to the draft unaudited accounts of the Fund to 31 March 2020, Members were informed that the Government had changed the deadlines for the production of the annual accounts in recognition of the additional burdens on Councils arising as a result of the COVID-19 pandemic. This applied to the 2019/20 accounts only. Publication dates were highlighted for Members. The intention had been to publish the unaudited accounts on the Council website on 26 June 2020, however the draft accounts were scheduled to be discussed at the Audit and Assurance Committee on 29 July 2020 and therefore they would be published after that meeting. This was ahead of the Government's revised deadline of 31 August 2020.

The draft version of the accounts before Members was subject to ongoing review and, whilst not expected, if a material amendment was required, then the accounts would be updated accordingly. The change of date meant that there was a longer period than usual between issue of the draft accounts and final sign-off by 30 November 2020. As a consequence of the extended deadline, additional work may need to be detailed or incorporated into the accounts and this potential work was detailed for Members.

Key Fund performance figures were reported after Members were reminded of the investment context in which the Fund was operating in 2019/20. The first nine months had seen positive returns on most investment markets however, the last quarter had been dominated by the Covid 19 pandemic which had a significant effect on global investment markets.

The Senior Manager – Pensions and Financial Services was pleased to report that due to the long term approach to investment and diverse portfolio of investment assets, the Fund had delivered a stronger performance than some global markets achieving a return of -2.8% for the year and at 31 March 2020 and was estimated to be 91.1% funded at that date. It was also noted that the Fund had continued to outperform its longer term benchmarks with annual performance over the past five years of 5.6% p.a. compared to the benchmark of 5.2% p.a and, over the past 10 years, annual performance of 7.7% p.a compared to a benchmark of 7.1% p.a.

Members' attention was drawn to the overview of the Fund's key activities in the year such as the significant work with Border to Coast Pensions Partnership (BCPP) and Partner Funds and a review of the Investment Strategy.

Also highlighted was the use of estimates where an asset could not be directly valued. It was noted that these estimates were undertaken by experienced professionals, for example the Fund's independent and qualified property valuer. It was noted that Covid 19 had impacted on the data available to undertake valuations. This was a national issue and it had been clearly stated by the Royal Institute of Chartered Surveyors (RICS) that it did not mean valuations couldn't be relied upon, rather it was highlighted that less certainty could be attached to them than would be the case under normal market conditions. Grant Thornton, the Council's external auditor had noted that it would be considering the Council's use of estimates in the audit of the accounts and anticipated inclusion of an 'emphasis of matter' clause in its final report. This clause would not be a qualification to the audit opinion but would instead be intended to draw the user's attention to the material valuation uncertainty.

An update on the progress of the audit would be given at the September meeting of the Committee. It was noted that, subject to the Pensions Committee agreeing to submit the draft accounts to the Audit and Assurance Committee for approval on behalf of the Council, the Audit Committee would review the final accounts at its meeting currently scheduled for 3 November 2020.

A Member welcomed that the sale of equities in early 2020 had been timed well. He drew Members' attention to Net Investment Income in the Accounts. He noted that the UK equities dividends had decreased by £10m and asked what mitigations were in place should cash be required. The Senior Manager - Pensions and Financial Services commented on the availability of cash and commented on the longer term strategy focussing on alternative portfolios such as property. She advised that Officers undertook effective forecasting of cash requirements for the Fund.

The Investment Advisor commented on the current unusual market environment and its volatility however, it was pleasing to report that markets continued to recover.

A Member asked officers to review Note 23 of the Pension Fund Accounts, Actuarial Position of the Fund to ensure that the penultimate paragraph was completed. The Senior Manager Pensions and Financial Services confirmed that this would be undertaken before publication.

The same Member highlighted concerns regarding the auditors' approach to reviewing the Fund's use of estimates in level three asset valuations such as property. The Director of Finance (S151 Officer) commented on the challenging matter of property valuations in the current market and added that a discussion on the method and approach for this would take place with the External Auditor at the July meeting of the Audit and Assurance Committee.

The Investment Advisor drew Members' attention to the transparency of Investment costs and fees. She reported that the LGPS had led the way in obtaining full disclosure of product fees. The Scheme Advisory Board (SAB) had been working on a project to increase transparency around the disclosure of fees. She reported that the SAB had been collating information on investment manager fees and she was supportive of the Fund's approach to obtaining fee templates from third parties.

A Member referred to the changes to rules for exiting the Scheme and welcomed that this was now being taken into account. He also queried whether there was a case to undertake a review of the Fund's Investment Strategy after the Covid 19 pandemic had subsided as the market may present new opportunities. The Senior Manager - Pensions and Financial Services advised that a sense check was planned supported by the Investment Sub Group and that a further review would be undertaken once the full impact of Covid 19 had become clearer. The Member asked that property managers keep a watching brief on property matters as the requirement of office space was reducing due to increased numbers of people working at home.

The Chair put it to the Committee that the resolutions as set out in the report be agreed by assent of the Committee and asked if any Member dissented to his proposal. As there was no dissent from Members, it was

RESOLVED that, the Pensions Committee:

- 1 Approves amendments to the Admission and Termination Policy, subject to consultation with Fund employers.

- 2 Submits to the Audit and Assurance Committee (subject to any final amendments) the Cumbria LGPS Accounts 2019/20 for approval on behalf of the Council.

## **98 PENSION FUND - INVESTMENT IN MULTI-ASSET CREDIT**

A report was considered from the Director of Finance (S151 Officer) the report asked Members to consider the recommendation from the Investment Sub Group (ISG) that the Committee agree to delegate the decision regarding investing in the sub-fund to the Section 151 Officer in consultation with the ISG. It was anticipated that the decision would be taken at a special meeting of the ISG in July 2020.

The Investment Advisor and Senior Manager – Pensions and Financial Services commented on the due diligence work currently being undertaken in investments.

Following careful consideration of the report and the detail provided by the Senior Manager – Pensions and Financial Services, it was

RESOLVED that, following its approval in principle in March 2020 to transfer the Fund's 5% allocation to Multi-Asset Credit (MAC) to the Border to Coast MAC sub-fund, the Pensions Committee:

- 1 Delegates to the Director of Finance (Section 151 Officer), in consultation with the Investment Sub Group, the final decisions as to whether and when to invest the Fund's 5% allocation to MAC in the Border to Coast MAC sub-fund, subject to the satisfactory completion of due diligence, and
- 2 Agrees that the Director of Finance (Section 151 Officer) be authorised to implement the investment in the Border to Coast MAC sub-fund, including the transfer to the sub-fund of the MAC investment currently with PIMCO, upon satisfactory completion of the due diligence work.

## **99 CLOSING COMMENTS**

The Chair thanked Members and Officers for taking part in the remote meeting which was a new way of working for the Committee.

The meeting ended at 11.00 am