

CUMBRIA PENSIONS COMMITTEE

Minutes of a Meeting of the Cumbria Pensions Committee held on Friday, 13 March 2020 at 9.30 am at Conference Room A and B, Cumbria House, Carlisle

PRESENT:

Mr MH Worth (Chair)

County Councillors

Mr SB Collins
Mr LN Fisher
Dr S Haraldsen

Mr NH Marriner (Vice-Chair)
Mr P Thornton

Employee Representatives

Ms T Barber – UNISON

Also in Attendance:-

- | | | |
|-----------------|---|--|
| Mrs D Burnet | - | Vice-Chair of the LGPS Local Pension Board |
| Ms A Clark | - | Senior Manager - Pensions and Financial Services
(Deputy S151 Officer – Pensions) |
| Mrs J Dole | - | Finance Manager Pensions Administration |
| Ms D Purvis | - | Finance Manager - Pensions & Treasury |
| Mr A Stone | - | Border to Coast Pensions Partnership Limited |
| Mr A Sutherland | - | Investment Adviser |
| Ms L Taylor | - | Finance Manager - Pensions Investments and
Governance |
| Mr P Whyte | - | Principal Finance Officer - Pensions |

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

69 APOLOGIES FOR ABSENCE

Apologies for absence were received from Mr J Airey, Mr J Keith and Mr J Mallinson

70 TERMS OF REFERENCE AND MEMBERSHIP

The Terms of Reference of the Committee were noted.

The Chairman advised that Mr M Wilson had replaced Mrs H Wall after she had resigned from the Committee.

71 DISCLOSURES OF INTEREST

There were no disclosures of interest made at the meeting

72 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;

14. Draft Pensions Administration Business Plan and Budget 2020/21 (Part 2)
15. Border to Coast Business Plan 2020/22, Budget 2020/21, Capital Requirement and Related Shareholder Resolutions
16. Monitoring Report for the Quarter ended 31 December 2019 - Part 2
17. Multi Asset Credit
18. Presentation – Multi Asset Credit
19. Verbal Update – Emerging Issues
20. Cumbria LGPS Investment Sub Group Activity Report to February 2020
21. Closing Comments

73 MINUTES

RESOLVED that, the minutes of the meeting held on 13 December 2019 be approved and signed as a correct record.

74 REPRESENTATION FROM NON COUNTY COUNCIL EMPLOYERS AND DISTRICT COUNCILS

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

75 SCHEDULE OF FUTURE MEETINGS

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

76 MINUTES OF THE BCPP JOINT COMMITTEE

The Minutes of the Border to Coast Joint Committee meeting held on 20 November 2019 were received.

The Chairman of the Committee reported on the Joint Committee's budget and the agreement that a consultant may be appointed on an ad hoc basis, if there was a specific collective issue that fell within the remit of the Joint Committee. He advised that there would be a number of workshops on the Responsible Investment Policies including tobacco and reported that a number of Pensions Committees were being lobbied by climate change protest groups. He noted that engagement remained the pool's agreed approach to influencing companies, with decisions about when to invest (or not) being taken by their investment managers in accordance with the pool's policies.

A Member questioned the practice of investing in tobacco and the longer term risk / return prospects of those assets. The Chair referred to the slight underperformance of the UK Listed Equity Fund and the reason for this.

RESOLVED that, the minutes of the Border to Coast Joint Committee meeting held on 20 November 2019 be received.

77 UPDATE FROM CUMBRIA LGPS LOCAL PENSION BOARD

A report was considered from the Director of Finance (Section 151 Officer) regarding an update from the Cumbria LGPS Local Pension Board (CLPB). The report summarised matters discussed by, issues arising from and any recommendations made by the CLPB at its recent quarterly meeting held on 17 January 2020.

The Vice-Chair of the CLPB highlighted the positive work of the CLPB which included the Cumbria LGPS data review and data improvement and the review of the Action Plan resulting from the Pensions Regulator's Cohort Review of the LGPS. The Vice-Chair of the CLPB reported that all members of the Board had received cyber security training from Cumbria County Council officers and had undertaken to complete the County Council's online cyber security training.

RESOLVED that, the update from the Cumbria Local Pension Board be noted.

78 CUMBRIA LOCAL GOVERNMENT PENSION SCHEME - FUND POLICY DOCUMENT ANNUAL REVIEW

A report was considered from the Director of Finance (Section 151 Officer) regarding the Cumbria Local Government Pension Scheme – Fund Policy Document Annual Review. The report incorporated all changes to existing policies (last published in September 2019) to reflect current circumstances and regulation changes in 2019-20.

The Finance Manager - Pensions Investments and Governance advised that substantial policy changes had been made to the Investment Strategy Statement and the Training Policy and 2020/21 Training Plan which meant those policies had been shown without highlighting to allow for a full review. In addition, an updated Appendix A4 Investment Strategy Statement was tabled at the meeting highlighting a small number of minor changes which had been made to the document since it had been published with the Agenda. It was noted that policies could be subject to change throughout the year.

Following a member query about the transfer of a new body into the Fund, the Finance Manager – Pensions confirmed that if Fund members transferred to a contractor they could remain in the Fund but the contractor was obliged to sign an Admissions Agreement.

RESOLVED that, the Committee

- 1 Approves the changes to the Fund's Investment Strategy Statement;
- 2 Approves the updated Training Policy and 2020/21 Training Plan; and
- 3 Notes and approves the other minor amendments made throughout the Fund Policy Document.

79 MONITORING REPORT FOR THE QUARTER ENDED 31 DECEMBER 2019 - PART 1

A monitoring report was considered from the Director of Finance (Section 151 Officer) for the quarter ended 31 December 2019 – Part 1. The report advised Members of any material risk, administration, investment performance, governance, and policy issues of the Fund for the quarter ending 31 December 2019. The report also identified any governance issues or national regulatory changes and outlined the performance of the whole portfolio and movement on liabilities over that period.

The Finance Manager - Pensions Investments and Governance highlighted changes to the Risk Register; 2 new risks added (Scam Detection and Prevention and Availability of Investment Opportunities), 2 removed (Cash Flow of the Fund and Flexibility of Investments) and 1 score had changed (Pensions Administration Processes). Explanations for the changes were reported to the Committee.

Members were informed that YPS's performance level had improved, and for five successive quarters to date had been at or above the target performance levels, but remained under review. It was reported that the number of days to enter into pension had increased however; this may be to do with complex cases rather than YPS' performance. Members were advised that there had been two new applications for admission into the Fund in the quarter with members being recommended to approve these.

An explanation was provided for the fall in Fund value of £48m and a summary was given of the performance against the Fund's benchmark for 1, 3, 5 and 10 years. It

was reported that the Fund would be working with the Actuary to develop its exit credit policy which would then be consulted upon and reported to the June 2020 committee meeting.

A member welcomed that scam detection and prevention had been included in the Risk Register and asked if the Fund or the member bore the cost of the scam and if there had been a scamming incident. The Finance Manager – Pensions advised that the Fund had not been involved in a scamming incident.

A member raised whether, in relation to risk 3.2 'Availability of Investment opportunities', it should be reflected in the Risk Register that there was an option to not pool assets should Border to Coast not offer suitable sub funds to enable the Investment Strategy to be implemented in a timely manner. The Senior Manager - Pensions and Financial Services advised that officers would review this as an addition to the Risk Register.

A short discussion took place on whether scams were reported nationally. It was noted that this was reported at Pensions Officers' groups and escalated if necessary. It was highlighted that a central register of scammers would be useful. The Senior Manager - Pensions and Financial Services explained that this was already in place.

Discussion took place on YPS performance target for members receiving a response in 10 days, in writing. This was considered to be an acknowledgement rather than a resolution and the wording should be changed. The Senior Manager - Pensions and Financial Services agreed with this and stated that the LGPS Pension Board had been involved with this issue and would feed back to them on this matter. The Vice-Chair of the LGPS Pension Board confirmed that the Board was working with YPS on this matter.

Discussion took place on the voting patterns of Robeco and the voting patterns at Shareholder meetings of Legal and General. Following a member question, about the risk of the value of the Fund collapsing, the Senior Manager - Pensions and Financial Services advised that this was incorporated in the Risk Register. A member considered that the Fund was well managed by officers and welcomed that it had an insurance policy should investment fall. The Senior Manager - Pensions and Financial Services reported that, following Committee approval in December of the steps to implement the new Investment Strategy, the Fund had reduced its passive equity and, as agreed, the equity protection product had been unwound in line with this. She noted that the product had been purchased to mitigate, as far as possible, the risk of increased employer contributions at the 2019 valuation and that this objective had been achieved. She also noted that the diversity of investments of the Fund assists it in weathering shocks now that the equity protection product had ceased and stated that investment performance is considered over the long term.

Reference was made to the impact of the Coronavirus pandemic on the value of the Fund. The Senior Manager - Pensions and Financial Services explained that officers were working closely with the Committee's Investment Advisor on this matter.

Discussion took place on the volatility of the market. The Investment Advisor reported on his work with other Investment Advisors on this matter and talked about markets recovery.

The Chair talked about the decision making powers of the Chief Executive should meetings be cancelled due to the Coronavirus pandemic.

RESOLVED that, the Committee

- 1 Receives and notes the performance and monitoring of the Fund for the period from 1st October 2019 to 31st December 2019.
- 2 Notes issues arising relating to the governance of the Fund in the past quarter.
- 3 Approves two applications for admission to the Fund from Orian Solutions at Fairfield Academy and Queen Elizabeth Grammar School (QEGS).

80 PROGRESS OF TRIENNIAL ACTUARIAL VALUATION 2019

A report was considered from the Director of Finance (Section 151 Officer) regarding the progress of the Triennial Actuarial Valuation 2019. The report provided Members with an update to the progress on the 2019 Triennial Actuarial Valuation of the Cumbria LGPS.

The Senior Manager - Pensions and Financial Services reported that work was being completed in line with the Actuarial Valuation timetable and explained that as agreed, no explicit allowance had been made in the Actuarial Valuation for the potential additional liabilities arising from the rectification of the McCloud case.

A member highlighted that the Actuarial Valuation involved a lot of assumptions and asked if there were officers who could ascertain if the assumptions were correct. The Senior Manager - Pensions and Financial Services explained about assumptions and how figures were based on data and were not expected to be absolutely correct, rather it was a judgement and the valuation provided an indication of expectations.

RESOLVED that, the Committee notes that the 2019 actuarial valuation is progressing in accordance with the timetable required to complete the valuation process within the regulatory requirements

81 DRAFT PENSIONS ADMINISTRATION BUSINESS PLAN AND BUDGET 2020/21

A report was considered from the Director of Finance (Section 151 Officer) regarding the Draft Pensions Administration Business Plan and Budget 2020/21. The report advised Members of the Draft Business Plan for 2020/21 setting out the Pension Fund's proposed work plan for the year and the Draft Budget 2020/21 required to deliver the proposed Business Plan for the Cumbria Local Government Pension Scheme (the Fund).

The Senior Manager - Pensions and Financial Services reported on the key objectives in the Business Plan for 2020/21 highlighting that as yet, it was unknown what the remedy would be for the McCloud case, but acknowledged that it would generate a significant increase in workload. She reported on the work of the team and the work of the LGPS Pension Board with employers on data quality. Work on investment management and the Investment Strategy was highlighted.

Members were informed of the work on oversight and governance led by the Finance Manager - Pensions Investments and Governance and of the Draft Budget for 2020/21. Reasons for the decrease of the proposed cost of administering the Fund were outlined.

RESOLVED that, the Committee approves:

- 1 The draft Business Plan for 2020/21.
- 2 The draft budget required to administer the Cumbria LGPS of £6.037m for 2020/21 (which has been constructed in support of the activities outlined in the Draft Business Plan).

82 DRAFT PENSIONS ADMINISTRATION BUSINESS PLAN AND BUDGET 2020/21 (PART 2)

A report was considered from the Director of Finance (Section 151 Officer) regarding the Draft Pensions Administration Business Plan and Budget 2020/21 (Part 2). The report provided details of the Fund's investment management fees budget for 2020/21, which, due to their confidential nature, were not reported publically.

The Senior Manager - Pensions and Financial Services reported on investment management costs, the YPS budget 2020/21 and planned service improvements.

Members asked questions on administration of the Fund, fees per Fund members, delivering greater economies of scale and the importance of ensuring that a potential change project is appropriately managed if it goes ahead. It was agreed that the last matter would be referred to the LGPS Pension Board to provide oversight.

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

RESOLVED that the Committee

- 1 Notes the detailed 2020/21 budget for investment management fees as summarised in the 2020/21 Draft Business Plan and Administration Budget report presented in Part 1 of the meeting.
- 2 Notes the proposed Pensions Administration (YPS) budget 2020/21 as summarised in the 2020/21 Draft Business Plan and Administration Budget report presented in Part 1 of the meeting.

- 3 LGPS Pension Board to provide oversight in relation to a potential change project, should it be progressed.

83 BORDER TO COAST BUSINESS PLAN 2020-22, BUDGET 2020/21, CAPITAL REQUIREMENT AND RELATED SHAREHOLDER RESOLUTIONS

A report was considered from the Director of Finance (Section 151 Officer) regarding the Border to Coast Business Plan 2020-22, Budget 2020-21, Capital Requirement and related Shareholder Resolutions. The report set out the 2020/21 Operating and Project Implementation budgets for Border to Coast Pensions Partnership Ltd (“Border to Coast”) and the Border to Coast Strategic Business Plan 2020-22 (which covered the financial years 2020/21 to 2022/23).

The Senior Manager - Pensions and Financial Services reported on the BCPP Strategic Business Plan 2020-22. A member asked a question about staffing numbers.

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

RESOLVED that, the Committee

- 1 Notes the detailed 2020/21 budget for investment management fees as summarised in the 2020/21 Draft Business Plan and Administration Budget report presented in Part 1;
- 2 Notes the proposed Border to Coast Operating and Project Implementation budgets for 2020/21 and Business Plan 2020-22;
- 3 Supports the Chair of the Pension Committee, in his capacity as the Council’s Shareholder representative for the company, to vote to approve the Border to Coast Strategic Business Plan for 2020-22 and the Operating and Project Implementation budgets for 2020/21;
- 4 Supports the Chair of the Pension Committee, in his capacity as the Council’s Shareholder representative for the company, to vote give Border to Coast the authority to allot up to £3 million “B” shares in the Company up to an aggregate nominal amount of £13 million, noting that circa £10 million “B” shares have already been allotted.

84 MONITORING REPORT FOR THE QUARTER ENDED 31ST DECEMBER 2019 - PART 2

A monitoring report was considered from the Director of Finance (Section 151 Officer) for the quarter ended 31 December 2019 – Part 2. The report advised Members of any matters that were considered to be Part 2 (due to the inclusion of exempt information relating to commercially sensitive matters of third parties including employers in the Fund, tax recovery cases, class actions and fraud cases) that had arisen during the quarter ending 31 December 2019. The matters were generally in regards to either governance or employer issues.

The Finance Manager – Pensions reported on employer issues and employer data provision. A question was asked on the responsibility of employers for providing data. A short briefing was provided on oversight and governance.

Following careful consideration of the report and the detail provided by the Finance Manager - Pensions, it was

RESOLVED that, the Committee notes the quarterly monitoring Part 2 items of the Fund for the period to 31st December 2019.

85 MULTI ASSET CREDIT

A report was considered from the Director of Finance (Section 151 Officer) regarding Multi Asset Credit. The report sought Members' approval in principle that the Fund invests its 5% strategic allocation to Multi-Asset Credit (also known as Diversified Credit) in the Border to Coast Multi-Asset Credit Fund (the MAC fund).

The Chair advised that the decision before members would be in principle.

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

RESOLVED that, the Committee

- 1 Approves in principle, subject to satisfactory completion of due diligence work, the transfer of the Fund's 5% allocation to Multi-Asset Credit (or Diversified Credit as it is also known) into the Border to Coast Multi-Asset Credit Fund
- 2 Notes that, following the expected further development of the Border to Coast Multi-Asset Credit Fund, it is anticipated that a further update and recommendations on this matter will be presented to the June 2020 meeting of the Committee

86 PRESENTATION ON MULTI ASSET CREDIT

Members received a presentation from Andrew Stone from Border to Coast Pensions Partnership Ltd on Multi Asset Credit (MAC). This detailed presentation gave a summary of MAC, and included the roles and responsibilities of MAC Managers.

Members asked questions about practices since the 2007 Black Monday crash, visibility of underlying loans to the managers, triggers on funds, expected default rates in a crisis such as the Coronavirus pandemic, high yield bonds and discussed the definition of a successful manager.

RESOLVED that the position be noted.

87 VERBAL UPDATE - EMERGING ISSUES

The Chairman wished the Finance Manager – Pensions Administration a long and happy retirement and thanked her for her work in the Pensions Team and in supporting the Committee.

A short update was provided on the McCloud case.

RESOLVED that, the position be noted.

88 CUMBRIA LGPS INVESTMENT SUB GROUP ACTIVITY REPORT TO FEBRUARY 2020

A report was considered from the Director of Finance (Section 151 Officer) regarding the Cumbria LGPS Investment Sub Group's activity report to February 2020. The report outlined activities since the previous Investment Sub Group (ISG), any decisions made by the Section 151 Officer and the proposed future work schedule in respect of the Investment Sub Group.

The Finance Manager – Pensions and Treasury reported on the business considered at the Cumbria LGPS Investment Sub Group meetings, outlined a review of new products, reported on progress with the Border to Coast Sub-Funds and performance monitoring and gave an update on the Group's work programme.

Following careful consideration of the report and the detail provided by the Finance Manager - Pensions and Treasury, it was

RESOLVED that, the Committee

- 1 Notes the progress of the Investment Sub Group from November 2019 to February 2020, including progress made in the planning and implementation of the agreed changes to the Investment Strategy (i.e. strategic asset allocation);
- 2 Notes the performance of the Fund over the quarter; and
- 3 Agrees the proposed work programme of the Investment Sub Group for the next reporting period.

89 CLOSING COMMENTS

The Chairman thanked members for attending the meeting.

The meeting ended at 12.05 pm