

CUMBRIA PENSIONS COMMITTEE

Minutes of a Meeting of the Cumbria Pensions Committee held on Friday, 13 December 2019 at 9.30 am at Conference Room A and B, Cumbria House, Botchergate, Carlisle, CA1 1RD

PRESENT:

Mr MH Worth (Chair)

County Councillors

Mr NH Marriner (Vice-Chair)
Mr SB Collins
Mrs H Wall

Mr LN Fisher
Mrs HF Carrick

Employee Representatives

Mr J Keith - GMB

Other Representatives:-

Mrs D Burnet - Vice Chair, Cumbria LGPS Pension Board
Mr A Sutherland - Independent Investment Advisor
Mr D O'Hara - KPMG, LGPS Investment Advisor
Ms G Rae - KPMG, Investment Consultant

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 S McGill - Technical Finance Officer - Pensions Investments
Ms D Purvis - Finance Manager - Pensions and Treasury
Ms L Taylor - Finance Manager - Pensions Investments and Governance
Ms E Templeton - Advanced Assistant Accountant Apprentice
Ms G Welbourn - Technical Finance Officer - Pensions

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

47 APOLOGIES FOR ABSENCE

Apologies for absence were received from Mr J Airey, Dr S Haraldsen and Mr P Thornton.

48 TERMS OF REFERENCE AND MEMBERSHIP

The Terms of Reference of the Committee were noted.

The Chair paid tribute to Mr Tim Gardener, who had been one of the Committee's Independent Investment Advisors, as he had recently passed away. Mr Gardner had advised the Committee for over thirty years. One minutes' silence was held in remembrance for Mr Gardener.

Mrs H Carrick replaced Dr S Haraldsen as a member of the Committee for this meeting only.

The Chair welcomed Ms Templeton to the meeting. She was currently an Advanced Assistant Accountant Apprentice within Finance and joining the Pensions Team on a temporary basis as part of her apprenticeship training.

49 DISCLOSURES OF INTEREST

There were no disclosures of interest made at the meeting.

50 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;

13. Part 2 Appendix to Half Year Update of the Pensions Administration Budget 2019/20 and Business Plan
14. Appointment of Independent Advisor
15. Progress of Triennial Actuarial Valuation 2019
16. Training: Investment Products; Multi Asset Credit; Semi-Liquid Credit and Private Rented Sector
17. Investment Strategy Review
18. Presentation: Investment Strategy Review

19. Monitoring Report for the Quarter Ended 30 September 2019
20. Update on Emerging Issues
21. Investment Sub-Group Activity Report to November 2019
22. Closing Comments

51 MINUTES

RESOLVED, that the minutes of the meeting held on 24 September 2019 be approved and signed as a correct record.

52 REPRESENTATION FROM NON COUNTY COUNCIL EMPLOYERS AND DISTRICT COUNCILS

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

53 SCHEDULE OF FUTURE MEETINGS

The Schedule of future meetings that had been published with the agenda was noted.

It was confirmed that the 27 February 2020 meeting of the Investment Sub Group would be held in Leeds at 11.30am.

54 MINUTES OF THE BCPP JOINT COMMITTEE MEETING ON 11 SEPTEMBER 2019

The Minutes of the Border to Coast Pension Partnership Joint Committee meeting held on 11 September 2019 were received. The Chair of the Committee had not attended the meeting but advised that all the business in the minutes had been reported to previous meetings of the Cumbria Pensions Committee.

RESOLVED, that the Minutes of the Border to Coast Pension Partnership Joint Committee meeting held on 11 September 2019 be received.

55 UPDATE FROM CUMBRIA LGPS LOCAL PENSIONS BOARD

A report was considered from the Director of Finance (Section 151 Officer) which summarised matters discussed by, issues arising from and any recommendations made by the Cumbria Local Pension Board at the quarterly meeting, held on 8 October 2019.

The Vice Chair of the Cumbria LGPS Local Pension Board had attended the meeting to provide a synopsis of the business conducted at the 8 October 2019 meeting. Mrs Burnet drew members' attention to the effective work being undertaken by the Board on the Risk Register and the monitoring of Your Pension

Service (YPS). She advised that YPS attended each Board meeting to enable the Board to monitor its performance. The Committee was advised that the Board was particularly interested in qualitative performance measures.

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

56 TRAINING UPDATE AND FUTURE PLANNED TRAINING

A report was received from the Director of Finance (Section 151 Officer) which provided members with an update on progress to date against the training plan which had been agreed at Committee in March 2019 as part of the Business Plan.

The Finance Manager - Pensions Investments and Governance reported that officers endeavoured to provide in-house training in order to maximise officer and member attendance. She drew members' attention to the Training Needs Assessment exercise currently underway and reminded members to complete their assessment if they had not already done so.

A member queried the data in the summary of Committee, Sub Group and Local Pension Board Attendance and Formal Training in 2018/19 as he was not included. The Finance Manager - Pensions Investments and Governance undertook to rectify the omission.

RESOLVED, that the progress towards the delivery of the 2019/20 Training Plan be noted.

57 MONITORING REPORT FOR THE QUARTER ENDED 30TH SEPTEMBER 2019 - PART 1

A report was received from the Director of Finance (s151 Officer) which advised Members of any material risk, administration, investment performance, governance and policy issues of the Fund for the quarter ended 30 September 2019. The report identified governance issues or national regulatory changes and outlined the performance of the whole portfolio and movement on liabilities over that period.

The Group Finance Manager – Pensions, Investments and Insurance presented detailed information on the current Risk Register as at December 2019. He advised that a new risk – 'McCloud Judgement' had been added to the Register and outlined the reasons why it had been moved from an emerging risk to inclusion in the Register. He reported that Timeliness of Breach Reporting had been removed from the Register. He explained that clear processes were now in place in order to mitigate the risk, therefore it was no longer a reportable risk. As the Information Security Arrangements risk was of interest to the Cumbria LGPS Pension Board, the January 2020 Board meeting would be themed on Information Security. Members were informed that YPS's performance had improved from the previous quarter.

Members were informed about the Guaranteed Minimum Pension Reconciliation Update, in particular, about the number of pensioners who had been overpaid the GMP. As guidance on this had still not been received from HMRC and other Funds

had written overpayments off, the Committee was asked to write the overpayments off to provide closure to affected scheme members on this issue.

Information was provided on asset allocation changes and investment performance. Attention was also drawn to the Good Governance in the LGPS Phase 2 report from Hymans Robertson. The Group Finance Manager - Pensions Investments and Insurance was pleased to report that a number of recommendations in the report were already in place in Cumbria.

Members were informed that in terms of the Administration and Communications Policy, it was proposed that the number of calendar days that employers had to submit monthly payroll data to the Fund be increased from 6 to 10 days after the month end. He was pleased to report there had been no breaches reportable to the Pensions Regulator in the last quarter.

The Investment Advisor drew members' attention to the proposal from the Scheme Advisory Board (SAB) regarding a Biennial Governance Review. He expressed his concern over the SAB's role and queried whether it was becoming a regulator rather than an Advisory Board. The Group Finance Manager - Pensions Investments and Insurance advised that this would be reviewed in light of the guidance that was expected to be published by the Minister of Housing, Communities and Local Government (MHCLG) and that members would be updated when it had been received.

A member queried the continual inclusion of cash flow risk in the Risk Register. He was advised that this would be reviewed as part of the work on the Investment Strategy Review and the risk register for Quarter 3 would be considered accordingly.

It was clarified that the number of days indicated for people entering into a Pension covered both people in employment and deferred members with it taking slightly longer for active members to enter into pension.

The Senior Manager - Pensions and Financial Services talked members through the key changes to the Border to Coast Responsible Investment Policy and Corporate Governance and Voting Guidelines and provided the overarching reasons for the changes. These included the introduction of additional disclosure legislation and how climate change may affect investments. She did not consider these to be material changes.

RESOLVED, that

1. the performance and monitoring of the Fund for the period from 1 July 2019 to 30 September 2019 be noted;
2. issues arising relating to the governance of the Fund in the past quarter be noted;

3. the write-off of the historic accrued overpayment of Guaranteed Minimum Pensions (GMP) payments for 58 pensioners within the Fund totalling £60,993 be approved;
4. the revised Border to Coast Responsible Investment Policy and Corporate Governance and Voting Guidelines be noted;
5. the amendment to the Administration and Communications policy to increase the timescale for employers to submit monthly payroll data from the 6th day of the month to the 10th day of the month be approved.

58 HALF-YEAR UPDATE OF THE PENSION FUND BUSINESS PLAN AND ADMINISTRATION BUDGET 2019/20

Members received a report from the Director of Finance (s151 Officer) that advised of the progress towards the delivery of the 2019/20 Business Plan and the projected 2019/20 budget outturn for the Cumbria LGPS including variances against the budget.

The Senior Manager - Pensions and Financial Services was pleased to advise the Committee that good progress had been made with regard to the completion of the approved business plan as all actions had either been completed or were on target for completion. The Cumbria LGPS Pension Board was thanked for the work undertaken on the review of data. It was considered that processes could be continue to be improved therefore improvements to technology were being sought.

A report was provided on the progress against the 2019/20 Business Plan. A lot of robust and proactive work had been undertaken on moving 30% of the Fund's assets into the Pool and the progression of the transition and the resultant investment performance was now being observed.

The team was congratulated for the significant work undertaken on an excellent set of accounts. Members noted that the Investment Strategy Statement would be considered by the Committee at its March 2020 meeting. It was highlighted that the McCloud judgement had caused a significant impact on the workload of the team over the year.

The Senior Manager - Pensions and Financial Services guided the Committee through the 2019/20 budget, detailing the projected outturn for the service and highlighted that due to the impact of increased workload, an additional staffing resource would be required. The forecasted investment manager fees and budget relating to the actuary costs were reported. It was welcomed that legal costs had been shared between a number of Funds which had resulted in an in-year saving.

The Chair thanked the Pensions Team for their excellent work and highlighted that the work of the Investment Advisors had been invaluable over the year.

RESOLVED, that

1. the progress against the approved Business Plan be noted;
2. the 2019/20 half year projected outturn position against budget for the Cumbria LGPS and forecast overspend of £0.085m (less than 1.5% of the budget) be noted;
3. the budget transfer of £0.991m from Management Fees (excluding Border to Coast) to Management Fees – Border to Coast to fund the projected fees associated with the management of the global equity portfolio from October 2019 to March 2020 be approved.

59 PART 2 APPENDIX TO HALF-YEAR UPDATE OF THE PENSIONS ADMINISTRATION BUDGET 2019/20 AND BUSINESS PLAN

Members received the 2019/20 Projected Outturn for the Administration of the Cumbria LGPS as at 30 September 2019.

The Senior Manager - Pensions and Financial Services guided members through the 2019/20 projected outturn, detailing the Fund Management Fees (both excluding and including Border to Coast) and Custody Fees. The Investment Management Total was noted.

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

RESOLVED, that the report be noted.

60 APPOINTMENT OF INDEPENDENT ADVISOR

A report from the Director of Finance (Section 151 Officer) was received which advised on the Appointment of an Independent Advisor. The Committee was recommended to agree the commencement of the appointment process and delegate the appointment to the Director of Finance (Section 151 Officer) in consultation with the elected members of the Investment Sub Group and supported by advice from the Fund's Independent Advisor.

The Senior Manager - Pensions and Financial Services reported on the proposed appointment process for an Independent Advisor. A number of members commented on the importance of the Committee receiving support from two Independent Advisors. A member highlighted what the role of the new Independent Advisor should be in aiding the Committee to remain autonomous.

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

RESOLVED, that

1. the commencement of the appointment process for an Independent Advisor to the Committee be agreed;
2. the appointment of an Independent Advisor be delegated to the Director of Finance (Section 151) in consultation with the elected members of the Investment Sub Group (Cllrs M Worth, N Marriner and S Collins) and supported by advice from the Fund's Independent Advisor (Mr A Sutherland).

61 PROGRESS OF TRIENNIAL ACTUARIAL VALUATION 2019

A report by the Director of Finance (Section 151 Officer) was received providing members with an update to the progress on the 2019 Triennial Actuarial Valuation of the Cumbria LGPS. The valuation was progressing in line with the timetable and employers had been informed of their provisional contribution rates effective from 1 April 2020.

The Group Finance Manager – Pensions, Investments and Insurance talked members through the Council's responsibilities as Administering Authority of Cumbria LGPS and the regulations it had to adhere to. Members were informed about a consultation with employers and advised on the value and liabilities of the Fund. The final results of the Valuation would be presented to the Committee in June 2020.

Discussion took place on the Fund's appropriate funding level and Pensions training for employers paying into the Fund was suggested. The advice provided by the Actuary following the Pensions Forum in November was highlighted.

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

RESOLVED, that it be noted that the 2019 actuarial valuation was progressing in accordance with the timetable required to complete the valuation process within the regulatory requirements.

62 TRAINING: INVESTMENT PRODUCTS; MULTI ASSET CREDIT; SEMI-LIQUID CREDIT AND PRIVATE RENTED SECTOR

A presentation was received from Mr D O'Hara, LGPS Investment Advisor, KPMG on Investment products including Multi Asset Credit; semi-liquid credit and private rented sector.

RESOLVED, the presentation be noted.

63 INVESTMENT STRATEGY REVIEW

Members received a report from the Director of Finance (Section 151 Officer) setting out the proposed Investment Strategy for the Committee's consideration.

Prior to making the decisions relating to this item, members received a detailed presentation from David O'Hara, LGPS Investment Advisor at KPMG.

The Senior Manager - Pensions and Financial Services drew members' attention to the rationale for the proposed Investment Strategy and its implementation stages.

The Director of Finance (s151 Officer) explained that the Fund had benefitted from being overweight to equities in the past however, in recognition of its strategic allocation amounts and the volatility risk of equities the Fund had been seeking to reduce Equity holdings. The new strategy aimed to stabilise the spread of risks and returns with a view to maintain stable employer contributions. It also sought to secure more inflation protection in the future. Transition to the new Strategy would be implemented over a period of time to manage this process in an effective and efficient manner.

Following careful consideration of the report and the detail provided by the Senior Manager - Pensions and Financial Services and Mr O'Hara, it was

RESOLVED, that

1. the proposed revised Investment Strategy be agreed;
2. the interim allocation be agreed;
3. the disinvestment of 10% of the Fund's investment in passive equity be agreed;
4. authority be delegated to the Director of Finance (s151 Officer) to unwind the Fund's equity protection products in line with disinvestment of the passive equity;
5. the disinvestment of the Fund's buy and maintain corporate bond portfolio (approximately 7% of the Fund) be agreed;
6. authority be delegated to the Director of Finance (s151 Officer) to give the current manager of the Fund's buy and maintain corporate bond portfolio notice to terminate the mandate in preparation for implementation of the revised Investment Strategy;
7. the Section 151 Officer in consultation with the Investment Sub Group commence work on the implementation of the proposed Investment Strategy.

64 PRESENTATION: INVESTMENT STRATEGY REVIEW

The Committee received a presentation from Mr D O'Hara, LGPS Investment Advisor, KPMG. This presentation informed the decisions made at Minute 63 for the report on the Investment Strategy Review.

RESOLVED, that the presentation be noted.

65 MONITORING REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2019 (PART 2 ITEMS)

Members received a report from the Director of Finance (s151 Officer) that advised of any monitoring matters that were considered Part 2 (due to the inclusion of exempt information relating to the financial matters of third parties including employers in the Fund, tax recovery cases, class actions and fraud cases) and therefore excluded from public disclosure, arising during the quarter ending 30th September 2019. The matters were generally in regards to either governance or employer issues.

The Group Finance Manager – Pensions, Investments and Insurance advised members on pensions administration, investment management, oversight and governance.

Members gave careful consideration to the report and after taking into account the information presented by the Group Finance Manager – Pensions, Investments and Insurance, it was

RESOLVED, that the quarterly monitoring Part 2 items of the Fund for the period to 30th September 2019 be received and noted.

66 UPDATE ON EMERGING ISSUES

Members received a verbal update from the Senior Manager - Pensions and Financial Services on a number of emerging issues. This included the impact of the McCloud case on workload on the Pensions Team and 2019/20 Budget. An update was provided on a Responsible Investment consultation that had been issued by the Scheme Advisor Board (SAB)

RESOLVED, that the position be noted.

67 INVESTMENT SUB-GROUP ACTIVITY REPORT TO NOVEMBER 2019

Members received a report from the Director of Finance (Section 151 Officer) which outlined activities since the previous Investment Sub Group (ISG) meetings held on 1 and 26 November 2019, 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 guided members through the report in detail, highlighting the Investment Strategy Review and a review of new products. She gave an update on progress with Border to Coast Sub-Funds, Fund Performance, investment managers and alternatives assets and the 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 September to November 2019, including work on the full Investment Strategy Review;
- 2 notes the performance of the Fund over the quarter, and notes that the corporate bonds portfolio manager will remain 'on watch';
- 3 agrees the proposed work programme of the Investment Sub Group for the next reporting period, including an additional item in the work plan (following agreement by Committee of a revised Investment Strategy) to progress the work to commence planning the implementation of changes.

68 CLOSING COMMENTS

The Chair announced that Mrs Wall was resigning from the Committee and this was her last meeting. She was thanked her for her support to the Committee. A replacement for Mrs Wall would be announced in due course.

The Chair thanked everyone for their attendance at the meeting.

The meeting ended at 1.30 pm