

PENSIONS COMMITTEE

11 JULY 2019

Present: Councillor Weaver(Chairperson)
Councillors Graham Thomas

12 : APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Dilwar Ali and Lay.

13 : DECLARATIONS OF INTEREST

None received.

14 : MINUTES

The minutes of the meeting held on 30 May 2019 were agreed as a correct record and signed by the Chairperson.

15 : WALES PENSION PARTNERSHIP

This report updated the Committee on progress towards the establishment of pooled investment arrangements for the eight LGPS funds in Wales under the oversight of the Wales Pensions Partnership.

Members were advised that the first two sub funds of the WPP Authorised Contractual Scheme (ACS) were launched in January 2019 with assets of approximately £4 billion.

Further sub funds, covering regional equities and fixed income, would be launched during 2019/20. The JGC approved the proposals for 4 fixed income sub funds at its meeting on 28 June. Cardiff currently holds assets totalling £770 million in active equities and £580 million in fixed income.

A Responsible Investment Policy is being developed by the WPP. The JGC approved principles for the Policy at its meeting on 27 March. A draft Policy has been circulated for consideration by the eight Pension Committees with a view to sign off at the JGC meeting on 20 September. This policy intends to set an umbrella under which the 8 funds can develop their own Responsible Investment Policy, including investing in fossil fuel.

Members were advised that the WPP will consult with constituent authorities on at least an annual basis to determine their individual investment requirements and longer term aspirations, including strategies either meet the responsible investment requirements of constituent authorities or have the potential to deliver benefit within the regions covered by constituent authorities. WPP will use this information to prioritise the development and launch of future investment solutions/funds within the WPP.

The Chairperson invited questions and comments from Members;

Members were pleased that each fund sets its own level of the policy.

Members noted the discussion at the WPP around how it communicates and gets messages out and this was under consideration too which was considered to be helpful.

RESOLVED:

- I. To note the recent developments in the establishment of the WPP Investment Pool.
- II. To consider the draft Responsible Investment Policy.

16 : DRAFT STATEMENT OF ACCOUNTS 2018-19

Members were advised that as Administering Authority, Cardiff Council is responsible for producing the annual Statement of Accounts for the Fund. Draft accounts for 2018/19 have been submitted for audit and were presented to the Council's Audit Committee on 25 June. The accounts are available for public inspection for 20 working days, from 18 June to 15 July.

Audited accounts will be presented to Audit Committee on 10 September and Full Council for approval on 12 September. The approved accounts will be published on the Council website by 15 September. The accounts will also be included in the Fund's Annual Report for 2018/19 which will be presented to this Committee for approval on 4 November and published by 1 December. Members noted that these timescales were earlier than previous years.

The Income and Expenditure for the Fund is summarised on page 9 of the accounts. Contributions from employers/employees were 6.3% higher than in 2017/18. This is due to an increase in the underlying pensionable pay combined with stepped increases in contribution rates for certain employers from 1 April 2018. Outgoing monthly pension payments were 5.3% higher than in 2017/18, reflecting an increase in the number of pensioners and dependants combined with a 3% inflation-linked pension increase in April 2018. Transfers in and out of the Fund resulted in a net inward transfer of £4.4 million, mainly due to a settlement with RCT Pension Fund in respect of staff transferred in 2015 to the joint Regulatory and Adoption Services managed by Vale of Glamorgan Council. Consequently the Fund's overall cashflows in respect of fund members were a net inflow of £11.5 million over the year.

The closing net assets of the Fund as at 31 March 2019 were £2.18 billion, an increase of 5.4% from the 2018 figure of £2.07 billion. The market value of the Fund's investments increased by £114 million and £27 million was received as income (and reinvested).

The Fund's overall investment return over the financial year was 5.1% relative to a market benchmark of 5.7%. Market sentiment swung from optimism at the start of the financial year to pessimism in the last quarter of 2018 and back to optimism at the

start of 2019, reflecting uncertainties concerning the departure of the UK from the EU, changes in the direction of central bank monetary policies and tensions over US-China trade relations.

The performance of manager portfolios during 2018-19 compared with their benchmarks were summarised for Members, who noted that the main issue was the UK managers who had underperformed against their benchmarks.

Over the last three financial years 2016-19, the average annual return was 9.6% against a benchmark return of 10.0%. Over the past 10 years, the average return was 10.5% against a benchmark of 10.6%.

The Chairperson invited questions and comments from Members;

Members sought clarification on whether the net inflow is reinvested into the fund. Officers advised that this was correct, cash balances are kept, up to three months of pensions to pay, this meant it was fairly stable by reinvesting over the year.

Members asked if Audit Committee had made any comments when they considered the report. Officers advised that they had not identified any issues. It was noted that the deadline is changing so Audit Committee had seen the report a few times. Members were advised that over the next 2 years the deadlines were likely to shift again so there may be a need to consider approval options going forward.

RESOLVED: To note the draft Statement of Accounts for the 2018-19 Financial Year.

17 : INVESTMENT STRATEGY & ASSET ALLOCATION 2019-20

Members were advised that this report requested the Committee to approve the Strategic Asset Allocation recommended by the Investment Advisory Panel for 2019-20.

At its meeting in September 2018, the Panel decided not to recommend any changes to the Asset Allocation but to carry out a further review after six months. In March the Panel considered the opportunities presented by the pooled funds launched by the Wales Pension Partnership in January and the proposals in progress for further sub funds. The Panel accepted the proposed changes to the allocation subject to advice from the Fund's actuaries on the risk/reward impact of the proposals. A report to the Panel meeting of 10 June confirmed that there were no material impacts on the risk/reward profile and the Panel agreed to recommend the amended allocation to the Committee.

The allocation recommended by the Panel for 2019-20 is shown in Appendix 2 of the report. The allocation includes the Committee's decision to invest 10% of Fund assets in a low carbon tracker fund.

If approved, the revised allocation will be implemented in stages during the remainder of the calendar year, subject to the WPP launching the additional sub funds required.

Members were advised that if approved then £220million would be transferred into low carbon tracker over the next few months.

The Chairperson invited questions and comments from Members;

Members considered that the transfer of funds into low carbon trackers funds should be publicised.

RESOLVED:

- I. To approve the Strategic Asset Allocation recommended by the Investment Advisory Panel.
- II. To note that the Corporate Director Resources has the authority under the Council's Scheme of Delegations to make arrangements to implement the approved amendments.

18 : ENGAGEMENT WITH THE PENSIONS REGULATOR

Members were advised that the Pensions Regulator (TPR) has had responsibility for public sector pension schemes (including the Local Government Pension Scheme) since 2015. During 2018 TPR announced that they would be carrying out a review of the LGPS by engaging with a sample of LGPS administering authorities. Authorities were chosen to cover the range of fund sizes and geographical spread within the LGPS, not because of any concerns about the administration of those particular funds. Cardiff was included in the review – the only Welsh fund in the sample.

A schedule of meetings between TPR case workers and Council officers was agreed, covering areas which TPR wished to review in depth. The meetings were a combination of face-to-face meetings and conference calls between 28 November 2018 and 4 April 2019.

Members were advised that TPR case workers had looked in detail at record keeping, risk registers, communication with members, pension board knowledge and cyber security. Themes identified were that there was an expectation that the Pension Committee should determine policies and procedures; Officers will review what is needed and bring to Pensions Committee for approval at the next meeting. Also reference had been to the Pensions Administration Strategy, the Pension Regulator will produce a summary report and this would be brought to a future committee for information.

Members were advised that the engagement process was now finished and there were just a few actions left to deal with.

The Chairperson invited questions and comments from Members;

Members asked what we already do with regards to the Pensions Administration Strategy and what the implications are. Officers advised that it was about documenting what we already do and laying down procedures with regards to

engagement with other employers, tying down deadlines, clarity around roles and responsibilities etc. Current arrangements are informal so it was just about formalising them. This formalisation is optional but the Pensions Regulator sees it as best practice. When a strategy is developed it will need to be reviewed, monitored and reported upon with regards to outcomes.

Members were advised that the Pensions Committee reviewing its own policies was an important aspect, it will need to agree overpayment and recovery policy as part of reconciliation and work on that is currently underway.

Members asked when this would come back to Committee and were advised that it would be before the end of the Financial Year. Officers considered that an Employers forum could be held in November, with consultation starting in October; this could be on the agenda and would be a good consultation/engagement opportunity.

RESOLVED: To note the conclusion of the TPR engagement process.

19 : MINUTES OF THE LOCAL PENSION BOARD

Noted.

20 : EXCLUSION OF THE PUBLIC

RESOLVED: That the following item is confidential and exempt from publication as it contains exempt information of the description contained in paragraph 14 of Part 4 and paragraph 21 of Part 5 of Schedule 12A of the Local Government Act 1972. The public may be excluded from the meeting by resolution of the Committee pursuant to Section 100A(4) of the Local Government Act 1972 during discussion of this item.

21 : MINUTES OF THE INVESTMENT ADVISORY PANEL

Noted.

22 : URGENT ITEMS (IF ANY)

None received.

23 : DATE OF NEXT MEETING

The next meeting would be held in the autumn, with a date to be confirmed.

The meeting terminated at 5.35 pm