

# Pensions Board

## Minutes

Monday 13 January 2020

### PRESENT

**Committee members:** Councillors Bora Kwon and Rory Vaughan

**Co-opted members:** William O'Connell

**Officers:** David Coates (Retained Pensions Manager), Timothy Mpofu (Pension Fund Manager), Mathew Dawson (Strategic Finance Manager), Dawn Auger (Assistant Director People and Talent)

### 1. APPOINTMENT OF CHAIR

#### **RESOLVED:**

That Councillor Rory Vaughan be appointed as Chair of the Pensions Board for the 2019/20 municipal year.

### 2. MINUTES OF THE PREVIOUS MEETING

The meeting held on 5<sup>th</sup> June 2019 was not quorate. The notes of this meeting were noted.

### 3. APOLOGIES FOR ABSENCE

Apologies for absence were received from Neil Newton.

### 4. DECLARATIONS OF INTEREST

There were no declarations of interest.

### 5. DRAFT MINUTES OF THE PENSION FUND SUB-COMMITTEE

#### **RESOLVED:**

THAT, the minutes of the Pension Fund Sub-Committee meetings held on 3 July and 12 September 2019 were noted.

### 6. LOCAL GOVERNMENT PENSION SCHEME (LGPS) ADMINISTRATION PERFORMANCE UPDATE REPORT

David Coates, Retained Pensions Manager, presented the report and provided an overview of the performance of Surrey County Council (SCC) across a range of Key Performance Indicators as set out in the service agreement. Referring to page 25 of the agenda pack it was noted that sixteen of the seventeen KPIs stood at 100%. In addition to the KPIs, an agreed priority of the pensions administration service was that SCC would focus resources on the resolution of queries at the first point of contact carried via a dedicated help desk. In September 2019 of the 644 personal contacts were made by employees in the Council's LGPS to the SCC help desk, 86% (567) were resolved at the first point of contact. As a result, this demonstrated good performance from SCC on helpdesk query resolution. Additionally, David Coates noted that SCC scored 90% on new retirement benefits processed for payment due to a delayed payment made by SCC.

William O'Connell, Scheme Member Representative queried how late was the retirement benefit paid to the member. In response David Coates explained that this was paid 6 days later than the target date. This was due to an administration error made by SCC and immediate action was taken to resolve this.

The Chair referring to help desk queries said that it would be useful to understand the circumstances under which SCC were unable to resolve queries at first point of contact and what was causing SCC to not achieve a target of 100%. Additionally, how long it took to resolve these matters. David Coates explained SCC were unable to reply first point of contact on 100% of the cases as they usually didn't have sufficient information from the employer to respond. SCC had shown very good performance on this KPI considering the number of helpdesk queries received. SCC were unable to provide information on how long it took to resolve a query due to system related challenges. Additionally, it was noted that no complaints were received from scheme members regarding the resolution of first point of contact queries.

The Chair thanked Officers for the report and noted that it was very helpful to review a detailed breakdown of the work that was being carried out by SCC which was very encouraging. He highlighted that the presentation was very clear and would like to continue for the report to be presented in the current format.

**RESOLVED:**

THAT, the Pensions Board noted the contents of the report.

**7. PENSIONS REGULATOR REPORT INTO THE GOVERNANCE AND ADMINISTRATION OF PUBLIC SECTOR PENSIONS**

David Coates, Retained Pensions Manager, provided an overview of the report and noted that this was presented at the last Pension Fund Sub-Committee in November 2019.

The report from Trevor Webster, Human Resources, stated that in September 2019 the Pensions Regulator (TPR) issued a report which followed the survey carried out between October 2018 and July 2019 into the Governance and Administration of Public Sector pensions. As part of the report the Pensions Regulator fed back on good practice and suggested improvements that could be made. The findings and

best practice were compared to the current governance standards within the Council's Local Government Pension Scheme fund and conclusions and recommendations had been made.

On behalf of Neil Newton (Scheme Member Representative), Members asked why there was a need for a data improvement plan, following the data recently produced for the triennial valuation. This suggested that the data provided was deficient and queried if any problems had been identified. In response David Coates said that the Scheme Manager monitored the level of accuracy and consistency within the pensions data. Discussions were currently ongoing with the SCC regarding the creation of a revised Data Improvement Plan following the data recently produced for the valuation of the fund. There were some areas of scheme member data that still required further cleansing, which included the processing of undecided leavers and Missing Care Pay / Missing Full-Time Equivalent Pay. Member records had also not been updated in some cases with the reasons for leaving, date of leaving, and periods of missing pensionable service. However, for undecided leavers, the missing information was sent to SCC by the Council. These areas must be actioned by SCC in addition to setting up revised data improvement plan. David Coates provided reassurances to members and noted that a meeting would be held with SCC to resolve data cleansing matter in due course.

Councillor Bora Kwon said that although this seemed like a legacy issue from previous challenges faced with BT/Capita, it was vital for these records to be updated by SCC. In response David Coates explained that Officers were working with SCC to implement a new way of managing the data which would involve refreshing records on a monthly basis, rather than using the current annual membership update model of year-end files, which was very antiquated. Once this was implemented, this would eliminate a lot of the ongoing data related issues.

David Coates noted that a recommendation from TPR was that a risk register should be in place and cover all potential areas. This should regularly be reviewed by the Pension Board. He explained that a fund risk register was in place and reported to the Pensions Board and Pensions Fund Sub-Committee by the Investment Team. To supplement the fund's risk register, the Pension Administrators were creating a risk register focussed solely on Pension Administration risks. This would be shared with the Pensions Board and Pensions Fund Sub-Committee regularly.

David Coates referring to page 33 of the agenda pack noted that another recommendation was for the scheme manager to arrange suitable training for Pension Board Members and set clear expectations around meeting attendance, therefore members should consider when a review of the training needs should be carried out. i.e. tailored sessions delivered to the board.

The Chair said that it would be a challenge to understand and deliver individual training needs. However, it would be useful for Officers to deliver a few standard training sessions for all members to ensure everyone was up to speed on the key areas. Members would then have a better idea to identify opportunities for further training development following these sessions. Additionally, the Chair requested that training on the triennial valuation also be included as part of the standard sessions.

The Chair also suggested that it would be effective for SCC to attend the next Pensions Board meeting to present a summary of their service provision in greater detail and answer any questions from the Board. In response David Coates explained that SCC were in the process of appointing a new Head of Service, therefore it would be a good opportunity for SCC to attend a future meeting if Members felt this was necessary.

**RESOLVED:**

THAT, the Pensions Board noted the report and approved the actions detailed in Appendix 1.

**8. QUARTERLY UPDATE PACK**

Tim Mpofu, Pension Fund Manager provided an update of the Pension Fund Quarterly Monitoring report. It was noted that, the Funds valuation was close to £1.1bn which suggested a good environment from an investment point of view.

In reference to the Fund's Environment, Social & Governance (ESG) appendix, Tim Mpofu provided a summary of how the fund was performing in line with its Carbon friendly targets. This would be updated on a regular basis and included as part of the quarterly update pack going forward. Officers will also work closely with Fund managers to review the Social and Governance aspects and would feed back to the Pensions Fund Sub-Committee and Pensions Board.

He explained that the Fund's investment in the MSCI Low Carbon index had 57% less CO2 output than the global benchmark. This analysis was carried out annually by the Pension Fund through a specialist firm. In addition, the Pension Fund's Officers continued to engage with the Fund managers in the development of better carbon emissions metrics and reporting. The total carbon friendly investment value was £466m.

Councillor Rory Vaughan, referring to Appendix 1 of the agenda pack queried why there had been a significant decrease in the number of active members and an increase in deferred members in comparison to June 2019. In response Tim Mpofu explained that previous figures had not been refreshed. However considerable progress had been made by Officers to update the data which had been fed into triennial valuation.

The Chair noted that it would be interesting to see how this would develop over the next few months. Additionally, he said he was keen to understand what type of green bonds, firms were investing in. Tim Mpofu explained that this was an ongoing challenge faced by Officers. It was difficult to track what companies were investing in and this was largely dependent on the nature of the company and the fund manager.

**RESOLVED:**

THAT, the Pensions Board noted the contents of the report.

**9. DRAFT TRIENNIAL VALUATION**

Tim Mpofo, Pension Fund Manager summarised the results of the 2019 triennial valuation. He noted that the Fund's funding level, as a whole had risen to 97% from the 88% level in 2016. Good results were broadly due to the excellent investment returns over the period, increasing by 88m more than expected. In addition, the Fund's deficit had decreased from £114m to £35m. It was noted that longevity rates had shown a slight decline in improvement since 2011. Therefore, a small adjustment was made to the valuation of liabilities, reducing the total; by approximately £54m.

It was noted that the primary rate had increased as the cost of asset purchase was more expensive in comparison with three years ago. Furthermore, the discount rate had been reduced to reflect a more prudent approach to future investment outcomes, following three years of significant investment returns. There had also been a decrease in the secondary rate as a result of a better funding level

Members explained that it would be valuable to receive a detailed briefing, relating to triennial valuation as part of any future training opportunities to develop a better understanding of this area.

**RESOLVED:**

THAT, the Pensions Board noted and commented on the initial actuarial results.

**10. MAC MANAGER SELECTION**

Tim Mpofo, Pension Fund Manager explained that at the last Pensions Fund Sub-Committee on 12 September 2019 the Pensions Sub-Committee agreed to reallocate the Pension Fund 5% allocation to diversified private credit. After drawing up an initial longlist of managers that were capable of running such a mandate, this was reduced to a shortlist of two. The Sub-Committee met on 22 October 2019 to interview the two managers, Partners Group and Aberdeen Standard Investments (ASI), to determine their suitability for the mandate. Both managers put forward compelling cases and it was recommended that the Sub-Committee appointed ASI for the following reasons:

- The fee quoted was substantially lower
- A lower risk, lower return profile was more attractive, given the stage of the credit cycle.
- The portfolio was more diversified across different types of credit, with more real estate and infrastructure debt as opposed to a corporate credit focus.
- As a seed investor, the Pension Fund had also been offered a seat on the Investment Advisory Board. In addition, the evergreen nature of the product enables for a smoother long-term investment.

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**RESOLVED:**

THAT, the Pensions Board noted the contents of the report.

**11. INVESTMENT CONSULTANT AIMS & OBJECTIVES**

Tim Mpofu, Pension Fund Manager presented the aims and objectives for the Fund's consultant, Deloitte as per the requirements of the Competition and Markets Authority (CMA).

An extensive review into the Pension Fund consultancy fiduciary management industry was conducted. As a result, the CMA produced a report detailing a number of recommendations to improve Pension Fund governance with some concerns expressed around fees and conflicts of interest. 8 key remedies were suggested in the report which were outlined on page 157 of the agenda pack.

It was noted that after consultation, the CMA investment consultancy and Fiduciary Management Market Investigation Order 2019 will come into effect in December 2019, by which time all Pension Funds will be required to have formally set aims and objectives for their investment consultants.

**RESOLVED:**

THAT, the Pensions Board noted the contents of the report.

**12. MHCLG PROGRESS REPORT**

Tim Mpofu, Pension Fund Manager provided an overview of the Ministry for Housing, Communities and Local Government (MHCLG) report. The London CIV (LCIV) pooling progress report had been prepared based on the data provided by the 32 local authorities within London and, in preparing cost and savings projections a number of assumptions had been applied to this data. The estimated savings passed on to member shareholders by March 2023 was projected to be circa £60m.

Councillor Bora Kwon queried whether LCIV had made any progress with their governance arrangements. In response Tim Mpofu explained that the current Chief Executive Officer (CEO) had been in place for a year. A new Chief Information

Officer (CIO) was appointment in September 2019, however departed in October 2019. An interim CIO who had in-depth knowledge on various asset classes had been appointed whilst recruitment for a new CIO was underway.

Furthermore, LCIV were also in the process of recruiting a head of Economic, Social and Governance (ESG), in addition to a team to consistently manage and monitor ESG related matters.

**RESOLVED:**

THAT, the Pensions Board noted the contents of the report.

**13. RESPONSIBLE INVESTMENT POLICY PROPOSAL**

Mathew Dawson Strategic Finance Manager explained that the newly proposed initial Pension Fund's Responsible Policy paper had been drafted. It was noted that the suggested update of the Pension Fund's ESG Policy would be included as part of the update to the Investment Strategy statement. A full redraft would be presented at the next Pensions Fund Sub-Committee. In addition, the responsible Investment Statement would be a stand-alone policy document which aimed to make clear the Pension Fund's investment values and would be subject to regular ongoing review.

**RESOLVED:**

THAT, the Pensions Board noted the contents of the report.

Meeting started: 7:00pm  
Meeting ended: 8:30pm

**Chair** .....

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