

**MINUTES OF PENSION FUND COMMITTEE 15 March 2019****PRESENT**

<b>Cheshire West and Chester:</b>	<b>Cllr Hogg (Chairman), Beckett, Crowe and Gahan</b>
<b>Cheshire East:</b>	<b>Cllr Baggott and Corcoran</b>
<b>Halton</b>	<b>Cllr Wharton</b>
<b>GMB:</b>	<b>Paul Matthews</b>
<b>Apologies:</b>	<b>Cllr's Durham and Findlow (Cheshire East) and Cllr Bowden (Warrington)</b>
<b>Actuary:</b>	<b>Gemma Sefton and Robert Bilton – Hymans Robertson</b>
<b>Investment Advisor:</b>	<b>Joanne Holden and Chris West – Mercer</b>
<b>Grant Thornton:</b>	<b>John Farrar and Stuart Basnett</b>
<b>Officers:</b>	<b>Mark Wynn, Chris Mann, Heidi Catherall, Steve Wilcock, Nick Jones and Debbie Darlington</b>

**1. PROCEDURAL MATTERS**

The Minutes from the Pension Fund Committee meeting on the 7 December 2018 were reviewed, having previously been agreed by email.

The minutes from the Local Pension Board Meeting which took place on the 5 February 2018 were noted.

There were no declarations of interest.

**2. STANDING ITEMS****2a Changes to Employers**

The Committee received a report detailing the new employers who had been admitted into, or exited the Fund over the period 1 November 2018 to 28 February 2019 (inclusive). The Committee was advised that:

- In total 306 members were transferred to new employers over the period 1 November 2018 to 28 February 2019.
- 106 members transferred to 5 new Academies who remain open to new LGPS membership

- 200 members transferred to 4 new Transfer Admission Bodies who are closed to new LGPS membership
- 3 employers left the scheme , 2 as a result of company mergers and 1 as a result of the last active member leaving

#### The Committee:-

- **Noted the update on admitted bodies that have entered and exited the Cheshire Pension Fund over the period 1 November 2018 to 28 February 2019.**

#### 2b Funding Level Update

The Committee received an update from the actuary on the funding levels for the four investment strategies. The method and assumptions used to calculate the updated funding positions were consistent with those used in the 2016 valuation, although the financial assumptions had been updated to reflect known changes in market conditions. The Committee noted that the further away from the valuation date the updates are, the more approximation is used to arrive at the funding level position.

The Committee were advised on how the funding levels have changed since the 2016 valuation as set out below, and noted that strong investment market performance had been the main contributory factor.

Strategy	31 Jan 2019	31 Mar 2016
<b>A</b>	87.3%	80.3%
<b>B</b>	97.3%	93.3%
<b>C</b>	72.2%	69.0%
<b>D</b>	127.2%	108.9%

#### The Committee:-

- **Noted the Fund's estimated funding position as at 31 January 2019.**

#### 2c COMPLIANCE UPDATE

The Committee was presented with a summary of the breaches log for the period 1<sup>st</sup> April 2015 to 31 December 2018, noting that a total of 247 breaches had been logged over the period.

The Committee was advised that the invoice totalling c£1,450 which had been submitted to the employer who was the subject of the red breach have now been recovered by external debt collection agents. Further invoices were outstanding to this employer and these will be subject to the same recovery process.

The Committee was advised of another employer subject to 4 amber breaches in 2018/19 who had been experiencing difficulties in meeting employer contribution payments and had a payment plan in place, but had missed two payments of the plan. This was due to a key

staff member leaving and the Fund was liaising with the employer's new accountant with a view to resume the payment plan.

**The Committee:-**

- **Noted and commented on the cumulative summary of the Breaches Log for 1 April 2015 to 31 December 2018.**

**2d Business Plan 2018/19 and 2019/2023**

The Committee received an update on progress against the quarter 4 targets set out in the 2018/19 Action Delivery Plan. The RAG ratings for the majority of actions showed that they were on target, with a few actions assessed as AMBER, denoting a risk of minor delay or marginal underachievement against target. The report explained the reasons for the AMBER ratings and confirmed that they would be carried forward into the 2019/20 Action Delivery Plan.

Officers reported that the forecast financial outturn against the 2018/19 Administration Budget is currently an underspend of £159k. Savings on staff turnover, printing and accommodation were the main contributory factors along with some rephasing of staff training costs into 2019/20, and lower than expected cost recharges from LGPS Central Ltd.

The Committee also received the draft Business Plan covering the period 2019/2023, including the 4 year high level action plan covering the same period. The Business Plan sets out the key priorities for the Fund over the medium term.

The proposed budget for 2019/20 of £4.660m was explained. This includes an increase in the permanent base budget of £1.1m to reflect the Fund's contribution to the running costs of LGPS Central Limited, as one of the 8 shareholder funds. These costs will be offset by savings in investment fees as a result of pooling.

The 2019/20 budget also included a temporary increase of £176k to cover additional costs associated with specific projects taking place in that year, including the 2019 valuation.

The Committee suggested a minor change to the key statistics table on page 3 of the Business Plan, to clarify the position with regard to investment income, but otherwise the Plan, including the 4 year action plan and 2019/20 budget were approved.

At the June Committee meeting an updated Business Plan will be presented, incorporating the suggested change requested. The Committee will also be presented with the detailed 2019/20 Action Plan Tracker and an updated Risk Register.

**The Committee:-**

- **Received an update on progress in delivering the 2018/19 Action Plan.**
- **Noted the 2018/19 outturn position of an underspend of £159k.**
- **Approved the 2019/2023 Business Plan, including the 4 Year Action Plan.**
- **Noted and approved the 2019/20 administration budget.**

### 3. AUDIT PLAN

The Committee received an overview of the timetable for the production of the 2018/19 Annual Report and Statement of Accounts. The Committee was reminded of the accelerated timetable which requires the Fund to produce the draft Statement of Accounts by the end of May and for the audit to be completed by the end of July.

The key dates for the Committee are:

Key Date	Action
7 June	The Pension Fund Committee receive the draft Accounts and recommend that the accounts be presented to Audit and Governance Committee for approval
19 July	The Audit Findings Report and Annual Report, including the Final Statement of Accounts, will be presented to the Pension Fund Committee

The Committee was also presented with a copy of the Audit Plan by Grant Thornton. The plan includes an overview of the planned scope and timing of the audit of the Statement of Accounts and Annual Report.

#### The Committee:-

- **Noted the timetable for the production of the 2018/19 Annual Report and Statement of Accounts.**
- **Noted and commented on the Audit Plan from Grant Thornton ahead of the plan being presented to Audit and Governance Committee.**

### 4. 2019 VALUATION ASSUMPTIONS

At the Member training session on 1 March 2019 the Committee received a presentation from the Fund Actuary setting out options and proposals of how to build and set valuation assumptions. This follow up paper set out the Actuary's proposals for assumptions to set the funding target for the Fund's upcoming formal valuation as at 31 March 2019. The paper also informed members where any assumptions had changed from those used in the 2016 valuation and the reasons for the change.

Also following on from the Member training session, the Fund Actuary presented the findings from a review of the current funding strategy for the four unitary Councils. With a recommendation that due to the improved funding position for the Councils since the 2016 valuation, it was possible to reduce the Councils' contribution rates from 1 April 2020. These reductions would be possible within the Fund's current funding risk framework. The paper also set out proposals to amend the long term stabilisation parameters for setting the Councils' long term contribution rates.

**The Committee:-**

- **Considered and approved the proposed assumptions set out in Appendix A to set the funding target for Fund's upcoming formal valuation as at 31 March 2019.**
- **Considered the paper attached as Appendix B and endorsed the amendments to the Councils contribution rates summarised in Table 1, page 2 of the report.**

## **5. COMMUNICATION AND ENGAGEMENT STRATEGY**

LGPS Regulations require all Funds to prepare, maintain and publish a written statement setting out their policy concerning communications with key stakeholders, including scheme members and employers. The Fund's current strategy has been in place since 2016. The Committee was presented with a revised draft Communication Strategy Statement and 2019/20 Communication Plan which set out the Fund's core communication objectives, key audience groups, relevant communication themes and media, and a delivery plan for the next twelve months. The content reflects the major change initiatives outlined in the Fund's 2019-23 Business Plan, including the implementation of employer on-line returns and member 'self-service'.

The statement will be reviewed on an annual basis in future.

**The Committee:-**

- **Considered and commented on the Communication Strategy Statement and the 2019/20 Communication Plan.**
- **Endorsed that Officers distribute the statement to scheme employers, key stakeholders and publish on the Pension Fund's website.**

## **6. ADMINISTRATION STRATEGY**

The Fund introduced its first Pensions Administration Strategy (PAS) in April 2016 to set out the respective roles of the administering authority and scheme employers. This recognised the increased importance of timely and accurate information under the CARE scheme, and the introduction of more formal arrangements for reporting breaches of the law, overseen by the Pensions Regulator.

The updated PAS re-states the performance levels expected from the Fund, and from scheme employers respectively, and will provide a basis for future compliance monitoring, and penalty charging in the case of persistent and serious under performance.

Feedback from the Pensions Consultative Forum has been incorporated into the final draft PAS, which has been issued to all employers for comment. The consultation period was due to close on 15<sup>th</sup> March, but has been extended until the end of the month. Subject to feedback from the Committee, and the employer consultation; the revised PAS will be implemented from 1<sup>st</sup> April.

As the aim of the PAS is to promote good working relationships and improved efficiency, a grace period of 6 months will be applied, to allow employers sufficient opportunity to address any local improvements before penalty charges are levied.

**The Committee:-**

- **Considered and endorsed the implementation of the revised Pensions Administration Strategy from 1 April, with a grace period of 6 months before the imposition of any penalties.**

**7. CASH FLOW UPDATE**

The Committee received an overview of the Fund's cash flow position from 1 April 2018 to 31 January 2019. This showed that there was a monthly shortfall between contribution income received from employers and benefits paid out each month. This shortfall was met by income received from investments to give an overall positive cash flow situation for the period of £6.5m.

Officers explained the fluctuations in cash balances over the period. Cash balances at 31 January 2019 were high at £89.8m as a result of a recent rebalancing exercise. The Committee was advised that it would be preferable to reduce this balance down to around the £40m mark and that an option to reduce this balance would be presented in the Investment Portfolio – Pooling Transitions report- Item 11 on the Agenda.

The Committee requested that regular, quarterly cash flow updates be provided in future.

**The Committee:-**

- **Considered the contents of the report and agreed that a cash flow update be provided to the Committee/Investment Sub Committee on a quarterly basis.**

**8. NATIONAL CONSULTATIONS – NEW FAIR DEAL AND GUIDANCE ON ASSET POOLING**

The Committee were updated on two national consultations recently launched by the Ministry for Housing, Communities & Local Government (MHCLG) and progress in developing the Fund's responses.

The consultation on proposals to introduce new statutory guidance on asset pooling was being undertaken on an 'informal' basis with a limited number of interested parties, whilst the consultation on amendments to the scheme regulations in respect of Fair Deal was open to all stakeholders.

A draft response on asset pooling guidance had been developed in consultation with the Fund's LGPS Central partners, to ensure consistency where possible, but with flexibility for Fund's to also express local views. The draft response was supportive of many of the guidance proposals, but pointed out a number of areas where it would benefit from further clarification or expansion, and also pointed out the practical challenges posed by the statutory reporting requirements, and the risks associated with cost comparisons over time and between pools/Funds.

The government's proposals on Fair Deal effectively require service providers to offer continued LGPS membership to scheme members who are subject to a compulsory transfer of employment, removing the option of offering a 'broadly comparable' scheme. For pension purposes, the ceding or letting body would become the 'deemed employer',

removing the historical need for an admission agreement. Whilst this would appear to be administratively more straightforward, officers felt that some form of agreement would be necessary to allow Funds to enforce employer obligations in terms of contribution payments and provision of member data, and the benefits in practice may be more marginal.

Overall, however it was felt that the proposed amendments would be beneficial both to scheme members and administering authorities.

The Committee agreed to clear final responses via an Electronic Decision Notice (EDN), to allow for any further amendments in the light of on-going discussions with partner funds.

**The Committee:-**

- **Considered the consultation papers included in the appendices to the report, and (where relevant) the draft responses proposed.**
- **Clear the final responses on-line, via an EDN to be circulated immediately prior to the consultation deadline**

**9. AOB**

No matters were raised.

**PART B – NOT FOR PUBLICATION**

**The Committee resolved that:**

**The details of the following items remain confidential on the grounds that they/it involves the likely disclosure of exempt information as defined by Paragraph 3 Part 1 of Schedule 12A of the Local Government Act 1972 (as amended) and that the public interest would not be served in publishing the information.**

**10. PROCEDURAL MATTERS**

The Minutes from the Investment Sub-Committee meeting which took place on the 15 February 2019 were reviewed, having previously been agreed by email.

**11. INVESTMENT PORTFOLIO – POOLING TRANSITION**

The Committee received an update on the latest position with regard to the transition of the Fund's assets in to the LGPS Central investment pool, including proposals to transfer around £600m from the current Equity Portfolio to two new investment products.

This follows the initial transfer, agreed by the Committee in December, of £250m to LGPS Central's Global Active Equity Fund. Officers reported that this transfer was now complete with actual transition costs incurred coming in just below the original estimate.

The report outlined the case for investment in a multi-manager Sustainable Equity Fund from the framework set up by the West Midlands Pension Fund, on behalf of, and in collaboration with, the LGPS Central partners. The managers selected will pursue an active, long term strategy with sustainability as a core part of the investment philosophy and Environmental, Social and Governance (ESG) issues being a key driver of outperformance. A blend of three managers was proposed in line with advice from Mercer, the Fund's investment advisers, in order to access a broad range of opportunities and to diversify risk.

An initial investment of £125m was proposed, funded partly by rebalancing within the current equity portfolio and partly from cash. This would result in a small fee saving.

This transition was likely to be complex, with costs difficult to estimate at this stage due to the nature of the transfer and the number of Investment Managers involved. Officers requested that they be given delegated powers to investigate the most cost effective transition plan, with the Committee being updated on any significant issues.

A further equity transfer of £462m was proposed, from the Fund's passive equity portfolio to a Factor Index Low Carbon Fund selected by LGPS Central following consultation with partner funds. The selected index would 'tilt' the equity portfolio held by Cheshire away from traditional market capital weightings using a multi-factor approach; a further tilt will then be applied away from companies based on a number of green/climate change related criteria. The objective of the Index was to deliver consistent outperformance versus the comparable market cap index, and to deliver a significant reduction in the Fund's carbon footprint compared to the index. The recommendation was supported by Mercer and information on the fee saving and the estimated cost of transition were considered by the Committee.

The Committee were also asked to note that at this stage, no proposals were being made to invest in LGPS Central's Emerging Market Equity Fund or Corporate Bond Fund.

#### **The Committee:-**

- **Considered and endorsed in principle, the proposal to transfer £125m from the Fund's existing active equity portfolio and from cash balances to invest in the West Midlands Sustainable Equity portfolio framework.**
- **Considered and endorsed an approach which permits Officers to consider options and take decisions and commission services to manage the Sustainable Equity transition in a cost effective manner.**
- **Considered and endorsed the proposal to transition funds from existing passive funds to the new LGPS Central Multi Factor Low Carbon Fund.**

## **12. GOVERNANCE REVIEW**

The Committee received a report which summarised the finding and conclusions from the recent review of the Fund's governance arrangements, undertaken by Barnett Waddingham. Whilst identifying a number of improvement opportunities, the review had concluded that the current governance arrangements work well, and that (given the forthcoming local elections,

and the recently launched, national Good Governance review), now might not be the best time to change them.

The report also proposed an action plan to address the improvements identified, under six 'themes':-

- Governance Documentation
- Website
- Representation/Conduct of Meetings/ Public Reporting
- Member Training/Development
- Pooling
- Future Structure

Whilst it was proposed that more fundamental recommendations in terms of the future governance structure and representation be deferred, pending the outcome of the Scheme Advisory Board's national Good Governance Review later this year; a number of other recommendations could be taken forward in the next six months, and the action plan proposed target dates for their implementation.

#### **The Committee:-**

- **Considered and commented on the conclusions and recommendations of the review, as set out in Appendix 1 of the Barnett Waddingham report (p47 onwards).**
- **Considered and endorsed, the draft improvement plan set out in Appendix 2 of the report.**
- **Placed on record their appreciation for Barnett Waddingham's assistance in the conduct of the review.**

#### **13. AOB**

The Chairman (Councillor Hogg) and the S151 Officer (Mark Wynn) paid tribute to Councillor Brian Crowe and Councillor Don Beckett, who will shortly be retiring from Council. Both were long standing members of the Pension Fund Committee whose advice and experience would be missed. Councillor Crowe and Councillor Beckett responded, thanking fellow Committee members, officers and advisors for their support over the years, and wishing them well for the future.