MINUTES OF THE PENSION FUND BOARD

Date:	Thursday 24th July 2014
Time:	9.30am -12.15pm
Place:	Kreis Viersen Room, Shire Hall, Cambridge
Board Members Present:	Councillors P Ashcroft, S Count (Chairman), R Hickford (Vice-Chairman), M Leeke, J Reynolds, D Seaton, M Shellens and J Walker (representing UNISON retired members)
Officers:	D Cave, S Dainty, L Grinnell, C Malyon, A Olaniyi, T Osekita, R Perry, I Smith and P Tysoe
Officer advisors:	Karen McWilliam (Aon Hewitt)

99. WELCOME AND DECLARATIONS OF INTERESTS

John Walker declared a personal interest as a retired member of the LGPS, and that his son and daughter-in-law were deferred members.

Matthew Pink declared a personal interest as both he and his wife were members of LGPS.

The Democratic Services Officer advised that Councillor Mike Shellens had been appointed to the vacant Labour place on the Pension Fund Board, with the agreement of Group Leaders.

There were no declarations of interest.

100. MINUTES OF THE PENSION FUND BOARD MEETING HELD ON 26th JUNE 2014

The minutes of the Pension Fund Board meeting held on 26th June 2014 were approved as a correct record and were signed by the Chairman.

Reimbursing Board Members (page 1) – it was clarified that a report would not be presented to full Council until the detailed arrangements for the new (PSPA) Pension Board were finalised. **ACTION: Deferred until PSPA Board arrangements finalised.**

Consultation response (pages 6-8): it was agreed that a copy of the final response would be sent to all Members. **ACTION: S Dainty.**

101. ACTION LOG FROM PENSION FUND BOARD HELD ON 8th APRIL 2014

Noted.

102. APPOINTMENT OF SUSBSTITUTE MEMBERS TO THE PENSION FUND BOARD INVESTMENT SUB-COMMITTEE

It was agreed that the Members of the Pension Fund Board who were not Members of the Investment Sub-Committee (ISC), i.e. Councillors J Reynolds and Shellens, would be appointed as substitute Members to the ISC. This was agreed as a general principle going forward.

Councillor Seaton indicated that he was willing to continue as the 'other employers' Member on the Investment Sub-Committee.

ACTION: Democratic Services to update membership of the ISC accordingly.

103. UPDATE ON NEW GOVERNANCE REGULATIONS

Karen McWilliam presented an update on the Local Government Pension Scheme (LGPS) Regulations, and the government consultation on the plan to implement a local Pension Board. The proposed changes had arisen following concerns over a number of LGPS Pension Funds which had performed poorly, both in terms of governance and financial management.

Members noted that the proposed Public Services Pensions Act Board ('PSPA Board') would essentially have oversight of the existing Pension Fund Board, e.g. review Key Performance Indicators, areas of good practice and areas for improvement, and assess whether the correct procedures were in place. It would not be a decision-making body, and authorities would be free to develop their own Terms of Reference. Equality of membership would be required, in terms of the balance between Employer and Scheme Member representation. However, the Employer representatives would exclude Councillors, including Parish Councillors. In terms of experience and capacity, the main qualification would be a willingness to be on the PSPA Board, and attend relevant meetings and training.

In discussion, Members:

- opposed strongly the proposed exclusion of Councillors from the PSPA Board, especially Parish Councillors, which they felt was unreasonably restrictive, and this point should be made in the response;
- noted the three alternative options put forward for PSPA Boards, i.e. Joint (NCC and CCC), Individual, or a combined CCC Pension Fund Board and PSPA Board. Combined Boards were opposed on the grounds that they were not good governance;
- noted the advice that a very 'light touch' should be taken, especially as the driver behind PSPA Boards was unfunded schemes with poor governance arrangements;
- noted the suggested frequency of meetings was around twice a year;
- commented that finding appropriately skilled and motivated PSPA Board Members may be challenging, especially given the proposed exclusions;
- commented that in terms of Scheme Member representation, that whilst UNISON appointed to the current Pension Fund Board, only 30-40% of Scheme Members were UNISON Members, and that it was important to reflect that wider membership. Karen agreed and advised that Democratic and Legal Services would assist in the recruitment and appointment of Members, and how this may be achieved e.g. via the Scheme Member newsletter;
- suggested that the PSPA Board should be set up separately to the existing Pension Fund Board, i.e. PFB Members should not have too much involvement with the PSPA Board Members, if their role was to oversee the PFB. Officers acknowledged this

point, but commented that some liaison would be helpful, and this could be achieved through joint training events, PSPA Board Members being invited to observe the PFB meetings, etc;

- noted that the likely reporting lines in the Terms of Reference would be through the PFB, Head of Legal Services, and full Council. There would also be a link between the PSPA Boards and the Pensions Regulator.

Members felt strongly that the proposals were introducing an unnecessary additional level of bureaucracy to well-run LGPS schemes, especially as the PSPA Boards would need to be funded through their respective Pension Funds. The proposed PSPA Board Members would require remuneration, and would need to be supported by the Pensions officers. Under the current arrangements, the Pension Fund Board was overseen by (i) the authority's Section 151 Officer; (ii) professional pension advisors; (iii) professional external governance advisors; (iv) external financial advisors; (v) full Council and the public; (vi) internal audit of performance (finance and governance); (vii) external audit of performance (finance and governance). Members felt strongly that the point should be made in the consultation response that given the checks already in place, additional scrutiny was not required in well-run Pension Funds. Given the current economic climate, and the efforts to reduce bureaucracy within local authorities, they found the whole approach counterintuitive, and felt that it should be strongly opposed. It was agreed that the Chairman would write to the Cambridgeshire and Peterborough MPs on behalf of the Pension Fund Board, highlighting these points, and point out that these proposals attempted to fix bad performance by penalising well-run Pension Funds.

A fourth governance option was put forward by the Chairman, whereby the Cambridgeshire and Northamptonshire Pension Funds would have separate PSPA Boards, but with the same membership. This would enable the PSPA Board meetings to be run consecutively, with some agenda items being the same, but others being Fund specific. Members supported this proposed approach. It was agreed that the Northamptonshire PFB should be approached, to see if they would be interested in this 'fourth option', and this would also need to be discussed with Legal and Democratic Services colleagues.

Members discussed how relevant experience was defined, and noted that it was not defined in the guidance, but references to a 'willingness' and 'ability' were stressed. It was agreed that the crucial points would be identifying the optimum size for the PSPA Board, the correct appointment processes, and appointing the right members and advisors.

In terms of possible benefits from a PSPA Board, officers suggested that lessons could always learned, although Members commented that there were already sufficient checks in place, and given the level of expertise of both the PFB and parties listed above ((i)-(vii)) it was very unlikely that the PSPA Board would pick up any significant issues that had not previously been brought to light.

It was resolved to:

1. note the contents of the report;
2. delegate responsibility for developing a response to the consultation to LGSS Pension Services officers subject to formal approval by the Chairman of the Pension Fund Board (PFB);
3. agree that LGSS Pensions Services officers work with the Director of Legal Services to progress the establishment of the PSPA Board, subject to the ongoing updates to, and input from, the Chairman of the PFB.

104. ANNUAL REPORT (DRAFT) AND STATEMENT OF ACCOUNTS 2013/14

The Pension Fund Board considered the final Statement of Accounts (SOA) of the Pension Fund for 2013-14, and the draft Annual Report for 2013-14.

It was noted that the SOA had already been subject to audit fieldwork by the County Council's external auditor, Price Waterhouse Cooper (PwC), and was complete, pending a resolution on a number of items, which were detailed in the report. Pension Services had delivered a significant improvement by producing the SOA for audit examination one month earlier than usual, and also significant improvement on the quality of the supporting documents. The Annual report was essentially complete, except for external audit examination.

Members queried a statement in 3.2.1 of the report that *"… (Cambridgeshire County) Council did not pay its contribution to the Fund on a timely basis."* This issue had subsequently been clarified: the Council had paid its contribution on time, but this contribution had been incorrectly coded and netted off. Members and the Section 151 Officer stressed the importance of correcting the statement in the report to reflect that this was an accounting issue, and there had not been a late payment by the Council. Paul Tysoe confirmed that he would be speaking to PwC shortly and this issue would be corrected in the final SOA. **ACTION: Paul Tysoe.**

The Section 151 Officer advised that the valuation of the Cambridge and Counties Bank had been previously based on historical cost. PwC's internal valuation expert is still reviewing this basis. It was noted that with effect from 2015/16, the Council's external auditors would be BDO.

Members discussed the issue of benchmarking against other LGPS Funds, which had been raised at the previous Board meeting. It was acknowledged that whilst this was useful information, it had to be understood within the context of different Funds having different strategies and appetites for risk: achieving the Fund's own objectives, with regard to benchmarks, was the key issue, rather than any arbitrary ranking against peers.

In response to questions, Members noted the following points:

- the increase in active Members in 2013-14 (from 9,820 in the previous year to 10,273) was mainly due to the transfer in to the Council of Public Health and CCS;
- the merging of the Cambridgeshire Fund administrators with those of the Northampton Fund related to administration only, and not the actual Funds;

Members discussed the assumptions in the Actuarial Statement, observing that e.g. pay increases of 4.3% pa had been factored in, when the actual increase had been no greater than 1% for several years. Tolu informed Members that this point had been raised at a meeting with the actuaries, who had advised that these assumptions were a prudent, long term view of the likely situation. In terms of the demographic assumptions, these were based on actual detailed life expectancies, based on postcodes. Improving lifestyles and longevity had been taken into account in the assumptions.

Councillor Seaton advised that the organisation named 'Enterprise', listed as a Scheme Member in the report, had recently been taken over by Amey. **ACTION: Paul Tysoe/ Steve Dainty to follow up.**

It was resolved to:

1. Note the Annual Report (Draft) and Statement of Accounts of the Pension Fund for the 2013-14 financial year;
2. Note the Annual Report and Statement of Accounts of the Pension Fund for the 2013-14 financial year would be presented to the October 2014 Pensions Board.

105. ADDITIONAL VOLUNTARY CONTRIBUTION (AVC) REVIEW

The Board received a presentation from Robert Stormonth of Prudential on Additional Voluntary Contributions (AVCs).

Arising from the Members' questions, Robert advised:

- that all 13 Cambridgeshire AVC Funds either met or exceed the industry benchmark Rate of Returns, over a five year period;
- that unlike private pensions, AVCs gave the facility to take the whole amount invested in AVCs as a tax-free lump sum;
- that nine presentations had been given to Cambridgeshire Scheme Members earlier in the year, although these presentations had not been well attended. Prudential were happy to do further presentations;
- there was no cross selling by Prudential, and they did not offer advice as part of the AVC service, but did offer a broad range of information. Some employers (although not Cambridgeshire) had asked the company for wider financial planning services, pre-retirement courses, etc;
- that Prudential was reviewing the AVC services it offered, e.g. by offering a more diverse range of Funds, including lifestyle options (e.g. higher risk funds, moving to lower risk on the approach to retirement) and diversified growth funds. A Member commented that most scheme members took AVCs because it was a relatively easy option, and suggested that Prudential could be much more proactive in the services offered to those scheme members;
- that scheme members could assess the performance of funds through the company's website, and also through the benefits statements that were issued annually.

It was suggested that whilst the Pension Fund Board closely monitored the performance of the Fund's assets and asset managers, they did not do the same for scheme members AVC funds separately invested with Prudential. Robert acknowledged that AVC funds were not as closely monitored as the rest of Pension Funds, but commented that AVCs represented a smaller value than the Fund's own assets.

The Board thanked Robert for his informative presentation, and he left the meeting.

Members clarified that the Pension Fund Board's AVC objective was to meet its statutory obligation requiring Funds to make AVC provision available to its scheme members, offering an appropriate choice of funds to cater for a wide range of scheme members. Simplicity was desirable, minimising the overall governance burden. However, Members were concerned that there was little competition in terms of local government AVC provision, and that Prudential held a virtual monopoly of that sector (73 of the 99 local government schemes), which gave Prudential little incentive to provide a competitive service. It was agreed that it was important to challenge this issue, especially as the provider gave 'adequate' performance in many areas. Noting that the performance of the AVC provider was currently considered by the Board every two years, the Board agreed to increase this reporting interval to annual. Whilst acknowledging that there was relatively low take-up by scheme members of AVCs, so the sums involved were relatively small, it was felt that cumulatively across local government Pension Funds, the amounts involved were significant. Other options, such as LGSS setting up its own AVCs scheme, were discussed. It was noted that there may be legal and financial complexities to be overcome in such an arrangement, in addition to economies of scale, but the possibility of marketing such an AVC option to other authorities was suggested.

Members requested a report from officers, comparing APCs and AVCs, the breakeven point on performance, and also revisiting alternative options for Funds available through Prudential. It was also agreed that this should be flagged up in the government consultation on governance arrangements that this was an area which required their attention, especially as it had the potential to reduce the government's pension burden. **ACTION: Officers.** Some Members commented that scheme members deserved a better deal with regard to AVCs, which could not be achieved by merely signposting them to the current provision.

It was resolved to:

1. Approve the continuation with the current providers of AVCs to the Fund;
2. Approve that Fund officers engage with the current provider to consider their range of investment funds being offered, in terms of diversity;
3. Agree that Fund officers engage with the current provider on strengthening AVC lifestyle strategy awareness and options;
4. Receive future reviews of the AVC arrangements annually;
5. Agree for further officer investigations and reports on possible alternative arrangements to be presented to the Pension Fund Board, as detailed above.

106. WM STATE STREET GLOBAL SERVICES ANNUAL PERFORMANCE REVIEW

The Board received a presentation from David Cullinan of State Street. He raised the following key points:

- total returns on assets exceeded the benchmark by 6.4% in 2013/14, most notably through positive performance on equities – bond performance was much more subdued. A modest risk premium had emerged for equities over the longer term, totalling around 3% pa over the past 10 years. Property had a similar premium to equities;
- asset allocation had changed over the last 20 years, most notably a significant increase in alternative investments;
- performance relative to benchmarks had not performed as well in the longer term;
- the Fund was well diversified by both asset class and asset manager;
- active stock selection had provided a very positive 1% contribution, with equity and bond performance being the largest two contributors.

Arising from the presentation, Members:

- asked which categories of Alternatives had provided the greatest return in the charts on page 8 of the presentation, commenting that it would be helpful to see a breakdown of this, which could in turn advise the investment strategy. It was also suggested that the reported volatility was lower on some assets due to less frequent valuations. David agreed to provide the expanded breakdown with a comparison to quarterly valuations for other asset classes, and include an explanatory note. **ACTION: Tolu Osekita;**
- observed that the contribution of stock selection to equity performance shown on page 13 was given were *before costs.* Tolu advised that net of fees, the contribution

was around 0.7/0.8%. Members suggested that it would be helpful to see a comparison of Funds, taking into account fees;

- asked David what he thought the Fund was doing badly, as his presentation was very positive. David responded that given the spread of assets, the Fund was well diversified, without being too diversified. However, some of the asset managers, e.g. Newton, were performing less well, although there was scope for improvement – however, the Fund's experience of problems with property was mirrored across the local government sector;
- discussed whether the right benchmarks were being set. Tolu advised that these were regularly reviewed by the Investment Sub-Committee, and that the next ISC meeting would be reviewing the benchmark for private equity, which was currently based on listed equities;
- noted that the terms 'volatility' and 'risk' were used interchangeably;
- asked what had led to the very poor performance in 2009/2010. David responded that this was mainly attributable to being underweight in equities and overweight in bonds, when the market was rebounding. This was exacerbated by particularly poor performance from a number of asset managers. In terms of how this situation could be avoided in future, Tolu explained that Members now received regular updates on the economic outlook and that regular reviews were carried out with asset managers, with strategy being reviewed as well as performance. There had also been huge strides made in governance, including a more frequent cycle of Committee meetings, with eight per year (Pension Fund Board and Investment Sub-Committee), enabling more rapid decision making. Further progress might be made with the support of an independent investment advisor;
- a Member suggested that it would be more useful to have greater detail rather than an overview, to best assess the position going forward, and it was agreed that Members review the report and advise suggested improvements to Tolu Osekita
ACTION: Members.

It was resolved to:

Note the Annual Performance and Benchmarking Review.

107. DATE OF NEXT MEETING 9.30am 11TH SEPTEMBER 2014

Noted.

108. FURTHER SCHEDULED MEETINGS

The following further meetings were noted:

9.30am 23rd October
9.30am 18th December
9.30am 19th March 2015

Chairman