

MINUTES OF THE PENSION FUND COMMITTEE

Date: Thursday 25TH July 2019

Time: 10.00 a.m. -11.50 a.m.

Place: Kreis Viersen Room, Shire Hall, Cambridge

Present: Councillors: L Brennan (substituting for J Walker), R Hickford (substituting for Cllr Hay), I Gardener, R Robertson, T Rogers (Chairman), P Downes and M Shellens

Officers: B Barlow, T Kelly, R Perry, R Sanderson, P Tysoe and M Whitby

Consultants: P Gent Mercer

Observers: None

Apologies: Councillors: A Hay, J Schumann and D Seaton. L Phanco, M Pink and J Walker

148 DECLARATIONS OF INTEREST

Liz Brennan declared a personal interest as a Local Government Pension Scheme Member.

Councillor R Robertson declared a personal interest as his wife was in receipt of a small pension.

149. MINUTES OF THE PENSION FUND COMMITTEE MEETING HELD ON 13th JUNE 2019

The minutes of the Pension Fund Committee meeting held on 13TH June 2019 were approved as a correct record and were signed by the Chairman.

Note: Later in the confidential section of the meeting a Member highlighted that in the context of the more detailed confidential minutes regarding investments, he believed he had raised a question about the story widely reported in the news about the Kent Pension Fund's investment in Neil Woodford's Equity Income Fund, and how this fitted in with the ACCESS arrangements. As an oral update officers confirmed that this was outside of the pooling arrangements and only affected the Kent Pension Fund.

150. MINUTES ACTION LOG

As an oral update on item 135, Councillor Robinson confirmed he had received the information requested and the action was now closed.

A Member queried why six actions were still ongoing. As set out in the Action / Status column many of the actions would be reported to the October meeting as this particular Committee meeting focused on the Accounts and the review of investments.

The Committee noted the Minute Action Log.

151. PENSION FUND ANNUAL REPORT AND STATEMENT OF ACCOUNTS 2018-19

The Committee received the Draft Annual Report for comment and approval as well as the Statement of Accounts for comments, the latter requiring submission to and final approval from the County Council's Audit and Accounts Committee.

Already published on the web and circulated separately to Members of the Committee in advance was the External Audit Report from EY (Ernst and Young LLP) titled 'Cambridgeshire Pension Fund Audit Results Report year ended 31st March' which had not been completed at the time of the agenda publication. Hard copies were made available at the meeting for members and the public. This report stated that the External Auditors were expected to be able to issue an unqualified opinion on the Cambridgeshire Pension Fund's financial statements having no issues they wished to bring to the attention of the Audit and Accounts Committee and having not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement. As a result, there was no need for a management response to either of the meetings.

In opening the discussion the Chairman thanked the officers for an excellent report and set of accounts with the former having been revised and presented in a new easier to read format.

Officers in presenting the report set out the main highlights which included:

- That as at 31st March 2019, the Fund was valued at £3.19 billion.
- The Assets Pool was progressing at a steady pace and was the subject of an update report later in the confidential Part 2 section of the agenda.
- The 2018-19 year continued the trend of increasing membership.
- The Funds investment Strategy over the past two years had increased the allocations to longer duration investments such as private equity and infrastructure while reducing the dependency on listed equities. Highlighting this was the pie charts on page 61 showing the strategic allocation target for 'Alternatives' at 31st March 2018 to 31st March 2019 being 23% with the actual allocation spend at 31st March 2019 being 21% and with the allocation to eventually go up to 30% as a result previous Committee decisions.

In discussion issues raised included:

- One Member indicating that he had found some grammatical errors in the report that he would share with the officers about outside of the meeting so that they could be corrected on the final signing off version.
- That as the members of the Committee had only received black and white copies of the agenda and the colour lines on the graph showing different benchmarks could not be identified, there was a request that for future year documents such as the Annual Report, they must be produced in colour. **Action: Democratic Services**

- It was suggested by one Member that there should be a note in the final version of the Annual Report highlighting that whatever the financial situation in Northamptonshire, they did not have an effect on the Accounts.
- Regarding liquidity, a Member suggested that reference should be made that Neil Woodford's Equity Income Fund did not affect the Fund.
- An explanation was given clarifying the relevant lines on the Investment Policy and Performance graph on page 65 as the Committee did not have a colour version of the Annual Report and the Accounts as part of their document pack. There was a request that this should be included in colour for future years. **Action: Democratic Services**
- Issues were raised regarding underperformance of the Fund as set out in the above referenced graph. Officers explained that the whole issue of benchmarking to assess the performance of investment managers and the Fund was a very complex area and was to be the subject of a training day on the 9th October which would include reviewing whether the right benchmarks were being used. One Member still suggested that the Fund had a £100 million drag of where the Fund should be. Other Members suggested that there were too many benchmarks shown which overcomplicated the position regarding Members being able to come to a conclusion of where the Fund was, compared with other, similar Funds. There needed to be an analysis of the various benchmarks in order for Members to come to a conclusion on which was the best to use. **Action for 9th October P Tysoe / Richard Perry**
- Page 43 – with reference to overpayments and them being particularly high in 2018-19 due to their identification as part the GMP Reconciliation Project, a question was raised regarding what was being done to recover them. Reference was made to a Team having been created to specifically deal with data quality work and overpayments.
- In the Table starting on page 44 and continuing on to page 47 listing all the employers in the Fund as at 31st March 2019, one member highlighted that 500 were listed while another section stated that there were 207 employers asking why the discrepancy? The list showed all employer contributions including bodies joining and leaving the Fund in the year. The reference in the report to the number of employers treats some listed schools as grouped into multi academy trusts, the latter being classed as the single employer. It was suggested that this should be clarified in a note. **Action P Tysoe / Richard Perry**
- Page 62 - query on the table titled 'Value of Investments at the balance sheet' The percentage shown on the 'Cash' line seemed to be incorrect possibly due to rounding and should be reviewed. **Action P Tysoe / Richard Perry**
- Page 87 with reference to the private equity / infrastructure change in market value during the year which showed a 10% increase a question was raised on whether this was sustainable, it was explained that some of this was due to the valuation of the Cambridge and Counties Bank - the expectation was that this sector would continue to increase as more money was being invested in the area.

- Page 103 'Assumed life expectancy at age 65' – A Member queried the figures which showed a decrease from the 2013 valuation to the 2016 valuation in all categories. In reply it was explained that life expectancies used by the Actuary was taken from an accredited industry wide data source as relevant to the make-up of the Fund's membership. More recent observations may have been that improvements to life expectancy had slowed down and life expectancy was falling due to poor / unhealthy lifestyle choices. The 2019 figures would be available in February /March. The Member asked that the figures for 2018 should be double checked as he thought the relative changes in life expectancy between genders seemed inconsistent. **Action: Richard Perry / Paul Tysoe**
- At a recent seminar attended by a Member it was indicated that Northamptonshire Pension Funds net current assets had increased while Cambridgeshire's had decreased and asked why this was. This was due to Cambridgeshire redeploying what had been a huge cash holding into Alternative assets and tighter management of cash.
- Clarification on a query raised regarding whether more than one Active Investment Manager had failed to meet their market based performance benchmark would be clarified with the Member following the meeting.

It was resolved unanimously:

- a) To approve the Draft Annual Report and Note the Statement of Accounts of the Pension Fund for the 2018-19 financial year.
- b) Approve the Head of Pensions in consultation with the Chairman to agree any immaterial amendments to the Annual Report arising from the External Auditor review and from the discussions at the meeting.

152. EXCLUSION OF PRESS AND PUBLIC

It was resolved:

That under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they contained exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended (information which is likely to reveal information relating to the financial or business affairs of any particular person) and that it would not be in the public interest for this information to be disclosed.

153. ANNUAL REVIEW OF THE FUND'S INVESTMENT MANAGERS

This report introduced a presentation by the Fund's investment consultants Mercer reviewing the performance of the Fund's Investment Managers for the year ended 31st March 2019. The report included the summary conclusions of the detailed report (attached as an appendix) providing qualitative research views from Mercer and additional quantitative analysis of the performance of each investment manager for the year ending 31st March 2019. This included an overview of the key contributors or detractors to performance and the key issues to consider for each mandate going forward. Section 4 of

the report summarised the investment manager's performance with section 5 providing a summary of the Fund's Investment Managers with a view of whether to retain / review.

The report was noted.

154. INVESTMENT MANAGER FEE REVIEW

This report reviewed the fees paid by the Fund to Investment Managers over a three year period and the performance delivered by each manager. Although the report concentrated on Active Investment Managers as they had been in place for the full period, details of fees over three years for Passive Investment Managers would be included in future reports by aggregating the current and previous managers' fees.

The level of turnover and transactions costs incurred depended upon the manager's approach to investing. The report concluded that the majority of the Fund's investment managers had competitive fees when compared to the wider universe of Mercer clients, with reasons provided for those with higher fees. With the exception of one manager, all other managers reported lower than expected annual turnover for the three year period as detailed in the confidential report.

It was resolved unanimously:

To note the Annual report.

155. CUSTODIAN MONITORING REPORT

The Cambridgeshire Pension Fund employed Mercer Sentinel to review the investment operations of the Fund administration and safekeeping of assets with the activities undertaken by the Fund's global custodian, the Northern Trust Company (Northern Trust).

The report provided details of the monitoring and benchmarking of the custodian and investment managers performance for the period 1st April 2018 to 31st March 2019 with regard to:

- Cash Management
Operational Efficiency: Trade Settlement, Income Collection, Corporate Actions, Proxy Voting, Tax Reclaims, Foreign Exchange
- Investment Manager Reconciliations
- Securities Lending
- Transaction Cost Analysis.

It was resolved:

To note the annual review of the investment operations of the Fund.

156. REVIEW OF ADDITIONAL VOLUNTARY CONTRIBUTION (AVC) PROVIDERS TO THE FUND

This report presented the findings of the review of Additional Voluntary Contribution (AVC)

providers (Prudential and Equity Life) conducted by Aon Benefits, the Governance Consultancy advisors to the Fund. The Review was to ensure that the providers and the investment options and services that they offered remained appropriate for scheme members and the Fund on what was a very limited market.

The review using the Occupational Pension Schemes Investment Regulations (2005) as a governance framework covered the following specific areas:

Summary of the AVC membership
Performance
Commentary on With Profits Funds held by members
Financial strength of the providers
Quality of the providers' administration
Quality and suitability of investment options available to members
Liquidity and tradability in regulated markets
Charges
AVC-related communications/disclosure of fund information
Recent changes within Equitable Life and Prudential.

It was resolved unanimously:

To note the contents of the report.

157. ACCESS ASSET POOLING UPDATE

This report updated the Committee on the Access Joint Committee (AJC) meeting of the 11th June 2019. In the public section of the meeting, the minutes of the previous meeting of the AJC, held on 18th March 2019, were approved and were attached at Appendix B to the report.

The report provided a summary for each agenda item of the Access Joint Committee and also detailed developments up to the date the report was written. The Access Joint Committee was open to the public but did also have a confidential business / sensitive section to it. The Business Plan was discussed as part of the public part of the meeting.

It was resolved unanimously:

To note the Asset Pooling Update.

158. FORWARD AGENDA PLAN

This was tabled at the meeting for information.

159. DATE OF NEXT MEETING 10 A.M. 10th OCTOBER

Chairman
10th October 2019