

DYFED PENSION FUND COMMITTEE

Wednesday, 14 March 2018

PRESENT: Councillor D.E. Williams (Chair)

Councillors: T.J. Jones and J.G. Prosser.

Also present as an observer:- Councillor D. Thomas.

The following Officers were in attendance:

C. Moore, Director of Corporate Services;
R. Hemingway, Head of Financial Services;
K. Gerard, Pensions Manager;
A. Parnell, Treasury & Pensions Investments Manager;
P. James, Pension Investment Officer;
K. Thomas, Democratic Services Officer.

Democratic Services Committee Room, County Hall, Carmarthen – 2:00pm - 4:15pm

1. APOLOGIES

There were no apologies for absence.

2. DECLARATIONS OF PERSONAL INTEREST

There were no declarations of personal interest.

3. MINUTES OF THE MEETING HELD ON THE 27TH NOVEMBER, 2017

RESOLVED that the minutes of the meeting of the Committee held on the 27th November, 2017 be signed as a correct record.

4. WALES PENSION PARTNERSHIP - LINK/RUSSELL PRESENTATION

The Chair welcomed to the meeting representatives of Link Asset Services and Russell Investments who had been invited to provide the Committee with an update on the present position relative to the Wales Pension Partnership, specifically the implementation of the pool and fund assets.

The representatives thereupon presented an overview of the operation, investments and expertise of both companies on a world-wide basis together with the approach to be adopted on the establishment of Sub Funds, the appointment of sub fund managers, the current Dyfed Pension Fund and the potential impact of pooled funds.

The Committee noted that work on the establishment of a pooling structure was ongoing with a view, over the coming months to register the 'pooling vehicle' with the Financial Conduct Authority. As part of that process, Link Asset Services would be compiling prospectuses with reports thereon being submitted to the Wales Pension Partnership Joint Governance Committee for approval.

The Committee was afforded the opportunity of asking questions on the presentation, following which, the Chair thanked the representatives for their attendance.

RESOLVED that the presentation be received.

5. 2018 AUDIT PLAN

The Committee received a report on the 2018 Audit Plan for the Dyfed Pension Fund and noted that it would be submitted for formal adoption by the Audit Committee at its meeting to be held on the 23rd March 2018.

The Committee was advised that the Plan followed the same format, as in previous years, with two exceptions. The first related to the establishment of the Wales Pension Partnership and the arrangements for the auditing of its accounts. The second related to the introduction of new Account and Audit Regulations. Current regulations required the Council's and the Pension Fund Audits to be completed as one document with the Audit Office issuing one opinion letter. The new Regulations required the accounts to be audited separately with the Audit Office having to issue two opinion letters.

The Director of Corporate Services confirmed that under the new regulations the Council could split the accounts with its accounts being published by the 30th September and the Dyfed Pension Fund by the 31st December, via the Funds' Annual Report. However, as there was no benefit in delaying the publication of the Fund accounts beyond the 30th September, it was his intention to continue with that arrangement, with the only difference being that separate reports would need to be produced and two Audit Office opinion letters issued.

Reference was made to the Audit Fees, and it was confirmed that the level to be applied to the Dyfed Pension Fund would not be affected by the establishment of the Wales Pension Partnership, as that audit would be undertaken separately. The fee for the Partnership had yet to be determined pending a greater understanding of the level of work which would be required to undertake the audit, with the cost being shared by the 8 Funds.

RESOLVED that the 2018 Audit Plan be received.

6. BUDGET MONITORING 1 APRIL 2017 - 28 FEBRUARY 2018

The Committee received the Dyfed Pension Fund Budget Monitoring report which provided an update on the latest budgetary position in respect of 2017/18.

The current position, as at the 28th February, 2018 forecast an underspend of £79.4m for 2017/18. Of that figure, a £1.7m overspend related to cash items that had the most impact on the Funds daily cash flow enabling the fund to maintain a cash neutral position by utilising income generated from investments to cover expenditure. The remaining £81.1m underspend related to non-cash items.

With regard to the Cash items, and based on current activity to date, it was estimated Benefits Payable and Transfers out would be underspent by £1.6m being mainly influenced by the un-controllable nature of lump sum payments and transfers out of the Fund.

Contributions and investment income contributed a further £4.7m underspend as a consequence of the additional investment income required to keep a positive cash flow to cover a £6.9m payment to the Investment Managers to meet investment commitments. The £5.2m underspend less £6.9m payments to the Investment Managers would result in a £1.7m overspend estimate for the year against budget. In cash terms, total expenditure was estimated to be £88.1m set against total estimated income of £88.2m, resulting in a positive cash flow position of £0.1m

With regard to Non-cash items, the £81.1m underspend was attributed to an increased value of realised gains occurring from the segregated equities transition that took place in April 2017 as part of the Wales Pension Partnership Joint Procurement exercise. It was noted that the non-cash items had no impact on the fund's daily cash flow.

The Director of Corporate Services referred to the Fund's income and advised that following the Council's recent decision to establish a Local Authority Trading Company for Careline – trading as Llesiant Delta Wellbeing Ltd (Minute 10.2 of Council held on the 14th February, 2018 refers) the new company was in the process of applying for admitted status to the Dyfed Pension Fund under the Transfer of Undertakings and Protection of Employment Regulations. It was noted that whilst the Committee's approval was not required for admittance, a report would be submitted to its next meeting confirming the appropriate admittance agreement had been signed and that 'Llesiant Delta Wellbeing Ltd' had become an admitted body to the Dyfed Pension Fund

RESOLVED

- 6.1 that the Dyfed Pension Fund Budget Monitoring Report be received;**
- 6.2 That it be noted that Llesiant Delta Wellbeing Ltd was applying to become an admitted body for the Dyfed Pension Fund.**

7. DYFED PENSION FUND BUDGET 2018-2019

The Committee received the Dyfed Pension Fund Budget for 2018/19. It was noted that the cash related expenditure for 2018/19 had been set at £86.5m set against a cash related income of £86.5m resulting in a net budget of £0 which provided the Fund with flexibility to utilise investment income based on cash flow requirements.

The Committee noted that with regard to expenditure levels, Benefits payable had been estimated to be £76.7m which included provision for a 3% pensions increase, based on the September CPI, together with a 2.5% net effect for new pension members. Management expenses had been estimated at £7.2m, of which, £5.2m had been budgeted for investment manager fees.

It was further noted that income contributions had been estimated at £69.2m comprising £50.5m employer and £18.7m employee contributions with those rates having been based on the 2016 valuation plus 2% having been factored in for pay increases in 2018/19. Investment income had been estimated as being £15.8m thereby maintaining a cash neutral budget and ensuring the fund was not retaining a cash surplus which could be invested.

The non-cash related budget had been set at £50m based on an estimate of the realised gains and losses for individual manager portfolio rebalances and sales and purchases within the property portfolios.

The Committee noted that whilst the budget had been estimated upon known factors, it could be subject to a number of variables throughout the year for example financial markets not achieving a 5% increase throughout the year, the number of staff leavers exceeding the estimate and a pay award in excess of the budgeted 2%.

RESOLVED that the Dyfed Pension Fund Budget for 2018/19 be approved.

8. CASH RECONCILIATION AS AT 31 JANUARY 2018

The Committee considered the Cash Reconciliation report which provided an update on the cash position in respect of the Dyfed Pension Fund.

It was noted that as at the 31st January, 2018 £5.3m cash was being held by Carmarthenshire County Council on behalf of the Fund for immediate cash flow requirements to pay pensions, lump sums and investment management costs.

RESOLVED that the Dyfed Pension Fund Cash Reconciliation report be received.

9. BREACHES REPORT

The Committee received for consideration the Breaches Report in relation to the Dyfed Pension Fund.

The Committee noted that Section 70 of the Pension Act 2004 sets out the legal duty to report breaches of the law. In the Code of Practice No. 14, published by the Pensions Regulator in April 2015, paragraphs 241 to 275 provide guidance on reporting these breaches. The Dyfed Pension Fund Breaches Policy was approved by the Dyfed Pension Fund Panel in March 2016.

Under the policy, breaches of the law were required to be reported to the Pensions Regulator where there was a reasonable cause to believe that:-

- a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with;
- the failure to comply was likely to be of material significance to the Regulator in the exercise of any of its functions.

The Committee noted that since the last meeting there had been a number of instances where employee/employer contributions had not been received on time, however, all contribution payments were now up to date and no report had been sent to the Pensions Regulator.

RESOLVED that the Breaches Report in relation to the Dyfed Pension Fund be noted.

10. RISK REGISTER

The Committee received for consideration a Risk Register which captured all the risks identified in relation to the functions of the Dyfed Pension Fund.

The register which was regularly monitored and reviewed included information as follows:

- Details of all identified risks
- Assessment of the potential impact, probability and risk rating
- The risk control measures that are in place
- The responsible officer
- Target Date (if applicable)

Members noted that some minor amendments had been made following a review of the register undertaken since the previous meeting in September 2017 for example the inclusion of the Wales Pension Partnership. The risks would be reviewed quarterly, and any identified risks would be drawn to the Committee's attention.

RESOLVED that the Risk Register be approved.

11. GOVERNANCE POLICY AND COMPLIANCE STATEMENT 2018

The Committee considered a report on a review undertaken of the Dyfed Pension Funds Governance Policy and Compliance Statement for 2018 to which minor amendments had been made to reflect constitutional changes including its renaming from a Panel to a Committee of the Council.

Reference was made to the Committee Membership, and to whether the list of named officers should be extended to include the Pensions Manager.

RESOLVED that the Dyfed Pension Fund Governance Policy and Compliance Statement 2018 be adopted subject to the officer membership being extended to include the Pensions Manager.

12. MARKETS IN FINANCIAL INSTRUMENTS DERIVATIVE (MIFID II) UPDATE

The Committee considered the Markets in Financial Instruments Derivative (MIFID II) update.

The updated briefing note demonstrated that since the Dyfed Pension Fund Committee meeting on 21st September 2017, applications had been submitted by Carmarthenshire County Council as administering authority for the Dyfed Pension Fund to opt up to Professional Client status for MIFID II purposes.

The Committee noted that the 'opt up' had been completed by eight of the listed institutions, the remaining two applications in respect of Standard Life (via Schroders) and Russell Investments were currently awaiting completion.

RESOLVED that the Markets in Financial Instruments Derivative (MIFID II) update be noted.

13. EXCLUSION OF THE PUBLIC

UNANIMOUSLY RESOLVED, pursuant to the Local Government Act 1972, as amended by the Local Government (Access to Information)(Variation) (Wales) Order 2007, that the public be excluded from the meeting during consideration of the following items as the reports contained exempt information as defined in paragraph 14 of Part 4 of Schedule 12A to the Act.

14. INDEPENDENT INVESTMENT ADVISER REPORT AT DECEMBER 2017

Following the application of the public interest test it was **UNANIMOUSLY RESOLVED**, pursuant to the Act referred to in minute 13 above, to consider this matter in private, with the public excluded from the meeting as it would involve the disclosure of exempt information relating to the financial or business affairs of any particular person (including the Authority holding that information).

The Committee received the Independent Investment Adviser Report which provided information in relation to the investment managers' performance for the quarterly, 12 month and rolling 3 year periods ending 31st December, 2017.

UNANIMOUSLY RESOLVED that the Independent Investment Adviser Report as at December 2017 be noted.

CHAIR

DATE