

DYFED PENSION FUND PENSION BOARD

Thursday, 21 March 2019

PRESENT: Mr. John Jones (Chair)

Cllr. P. Hughes [Carmarthenshire County Council – Employer Member Representative];
Mr. T. Bowler [Union Member Representative];
Mr. I. Eynon [Pembrokeshire County Council – Employer Member Representative];
Mr. G. Jones [Member Representative];

Also present as an observer:

Cllr. D.E. Williams, Chair of the Dyfed Pension Fund Committee;

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 and Pension Investments Manager;
R. Lewis, Assistant Accountant;
J. Laimann, Assistant Democratic Services Officer.

Democratic Services Committee Room, County Hall, Carmarthen, 10.30-11.45 a.m.

1. APOLOGIES FOR ABSENCE

An apology for absence was received from Mr Mike Rogers [Pensioner Representative].

2. DECLARATIONS OF PERSONAL INTEREST

There were no declarations of personal interest.

3. MINUTES OF THE PENSION BOARD MEETING HELD ON THE 15TH OCTOBER 2018

AGREED that the minutes of the Pension Board meeting held on the 15th October 2018 be confirmed as correct record.

4. DYFED PENSION FUND COMMITTEE 21ST FEBRUARY 2019

The Board received for consideration the following reports which had been considered by the Dyfed Pension Fund Committee at its meeting held on the 21st February 2019:

4.1. DRAFT MINUTES OF THE DYFED PENSION FUND COMMITTEE MEETING 21ST FEBRUARY 2019

The Board received the draft minutes of the Dyfed Pension Fund Committee meeting held on the 21st February 2019.

Several issues were raised in relation to the minutes, including the following.

Minute Item 6 – Cash Reconciliation as at 31 December 2018

In response to a query, the Director of Corporate Services advised that the £8.7m cash held by Carmarthenshire County Council on behalf of the Fund was sufficient to address immediate cash flow requirements.

Minute Item 10 – Presentation by the Host Authority on Milestones and Progress Update - Wales Pension Partnership

A query was made regarding the delays in launching Tranche 2 and Tranche 3 noted in the progress update. The Director of Corporate Services advised that the delays had occurred in the process of determining portfolios. Given the long-term nature of the investments, ensuring appropriate portfolio composition was more important than meeting target dates. He advised that the delays therefore should not be considered detrimental to overall progress.

Minute Item 15 – Securities Lending

In response to a query, the Director of Corporate Services advised that the decision to adopt Securities Lending would have to be made at Pool level, with all LAs agreeing to the proposal. He informed that the Dyfed Pension Fund Committee had only agreed to Securities Lending on the Global Equity Fund and that responses from some LAs were still outstanding.

4.2. BUDGET MONITORING 1 APRIL 2018 - 31 DECEMBER 2018

The Board considered the Dyfed Pension Fund Budget Monitoring report which provided an update on the latest budgetary position in respect of the 2018/19 financial year.

It was suggested that there were some inaccuracies/ inconsistencies in the attached Budget Monitoring spreadsheet. The Director of Corporate Services advised that a corrected version could be circulated to both Pension Board and Committee.

In response to a query regarding transfers in from other pension funds, Officers advised that these transfers were uncontrollable and difficult to forecast. Board Members would be provided with further clarification in relation to this item's actual income/expenditure figures to date.

AGREED that

- 4.2.1 a corrected version of the report be circulated to the Dyfed Pension Fund Pension Board and the Dyfed Pension Fund Committee.**
- 4.2.2. the corrected version provide Board Members with clarification in relation to the actual income/expenditure to date for transfers in from other pension funds.**

4.3. BUDGET 2019-20

The Board considered the Dyfed Pension Fund Budget for 2019-20. It was noted that the cash related expenditure for 2019-20 had been set at £87.8m and the cash related income at £87.8m, resulting in a net budget of £0 which provided the Fund with flexibility to utilise investment income based on cash flow requirements.

With regard to expenditure levels, the Board noted that benefits payable had been estimated to be £79.5m which included provision for a 2.4% pensions increase, based on the September 2018 CPI together with a 2% net effect for new pensioner

members .Management expenses had been estimated at £5.6m, of which £3m had been budgeted for investment manager fees. It was further noted that income contributions had been estimated at £72.1m, comprising £52.8m employer and £19.3m employee contributions, with employer rates based on the 2016 valuation plus 2% factored in for pay increases in 2019-20. Investment income had been estimated at £14m to maintain 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.

In response to a query on benefits payable, the Director of Corporate Services advised that the variance percentage of 3.7% reflected a 2.4% pensions increase for current pensioners, a 2% increase for people in work, and a 2% increase for new and deferred pensioners. An illustration of the relevant calculation could be provided at the next meeting.

The Board was informed that increases in the management expenses for Schroders and Partners Group were partly due to increases in the capital value for investments and reflected different investment structures.

It was advised that figures relating to the Dyfed Pension Fund costs to the Wales Pension Partnership were partly based on estimates and more precise data would be available in the next financial year.

AGREED that the Budget for 2019-20 be noted.

4.4. CASH RECONCILIATION AS AT 31 DECEMBER 2018

The Board 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 31st December 2018, £8.7m 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.

AGREED that the Cash Reconciliation report be received.

4.5. BREACHES REPORT 2018-19

The Board received for consideration the Breaches Report in relation to the Dyfed Pension Fund. Section 70 of the Pension Act 2004 sets out the legal duty to report breaches of the law.

A query was made asking whether it would be possible to disclose details of individual breaches so as to identify whether repeated breaches could be linked to specific organisations. Officers advised that this was possible through an exempt report and suggested that an analysis and year-on monitoring regarding “repeat offenders” could be provided.

AGREED that

4.5.1 the Breaches Report be noted;

4.5.2 future Breaches Reports include monitoring of potential “repeat offenders”.

4.6. RISK REGISTER

The Board 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)

In response to a query regarding Brexit related risks, Officers advised that these had not been included in the register as they were outside the Committee's control. Risks associated with the exchange rate had to be managed by investment managers.

In response to a query on risk relating to funds' performance, Officers advised that the funding strategy was reviewed annually after evaluations had been published.

With regard to the risk relating to non-performance by Committee Members, Officers advised that Committee Members were required to take part in annual training. One Member on the Committee had been replaced recently due to political changes in party composition and the new Member had received induction into the work of the Committee.

In response to a query regarding resources for the Wales Pension Partnership, Officers advised that all staff had been appointed and the Fund was in a good position. Partnership working was progressing well and there were budget provisions for appointing a further member of staff if required. However this was not considered necessary at the moment.

UNANIMOUSLY RESOLVED that the Risk Register be noted.

4.7. MHCLG CONSULTATION

The Board considered an MHCLG consultation on draft statutory guidance on asset pooling in the LGPS, appended with a note by Hymans Robertson LLP, consultants to the Wales Pension Partnership.

The Board was advised that consultation responses would be sent by the Wales Pension Partnership and the Dyfed Pension Fund.

It was suggested that the statutory guidance could require regular reviews at shorter intervals than every three years and that it should provide more flexibility and clarity regarding the requirement to make investments locally. In response to a query, Officers advised that further discussion was required to clarify the role of Local Pension Boards in relation to the WPP.

AGREED that

4.7.1. the MHCLG consultation and Hymans paper be noted;

4.7.2. a draft response be circulated to Board Members.

4.8. WALES PENSION PARTNERSHIP

The Board received a report on the Wales Pension Partnership which provided an update on the milestones and progress to date.

The Board noted key updates which included:

- Key Milestones
- Progress to date
 - Initial Funds (Global Equity)
 - Tranche 2 (UK and European Equities)
 - Tranche 3 (Fixed Income)
- Next steps

In response to a query, Board Members were advised that arrangements were being made to hold another meeting of Pension Board Chairs in April. The Chair advised that he would attend and provide the Board with an update after the meeting.

AGREED that the Wales Pension Partnership update be received.

5. PENSION BOARD BUDGET 2019-20

The Pension Board considered the Pension Board Budget for 2019-20.

AGREED that the Pension Board Budget for 2019-20 be approved.

6. 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.

7. INDEPENDENT INVESTMENT ADVISER REPORT

Following the application of the public interest test it was UNANIMOUSLY RESOLVED, pursuant to the Act referred to in Minute 6 above, to consider this matter in private, with the public excluded from the meeting as disclosure would be likely to cause financial harm to the Pension Fund.

The Board 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 2018.

AGREED that the report be noted.

8. NORTHERN TRUST PERFORMANCE REPORT

Following the application of the public interest test it was UNANIMOUSLY RESOLVED, pursuant to the Act referred to in Minute 6 above, to consider this matter in private, with the public excluded from the meeting as disclosure would be likely to cause financial harm to the Pension Fund.

The Board considered the Northern Trust Performance report for the Dyfed Pension Fund as at 31st December 2018 which provided performance analysis at a total fund level and by investment manager for the periods up to inception.

AGREED that the report be noted.

9. SECURITIES LENDING

Following the application of the public interest test it was UNANIMOUSLY RESOLVED, pursuant to the Act referred to in Minute 6 above, to consider this matter in private, with the public excluded from the meeting as disclosure would risk causing financial harm to the Pension Fund and the fund managers by disclosing the intellectual property of those fund managers.

The Board considered an application of securities lending for the Dyfed Pension Fund investments within the Wales Pension Partnership. The application included a Mercer report on securities lending and the Northern Trust proposal.

The Board was advised that adoption of the proposed trading solution was subject to approval from all eight LGPS funds in Wales. Upon considering advice from the Independent Investment Adviser, the Pension Fund Committee had resolved to approve the application of securities lending, provided that the trading solution was regularly monitored and was only applied in the first instance to the Wales Pension Partnership's Global Growth Fund. The Board was advised that all Funds except Torfaen had agreed to the trading solution.

AGREED that the application for Securities Lending be noted.

CHAIR

DATE