

DYFED PENSION FUND COMMITTEE

THURSDAY, 21ST SEPTEMBER, 2017

PRESENT: Councillor D.E. Williams [Chair]

Councillors:

T.J. Jones and J.G. Prosser

The following Officers were in attendance:

Mr C. Moore	-	Director of Corporate Services
Mr A. Parnell	-	Treasury & Pensions Investment Manager
Mr K. Gerard	-	Pensions Manager
Mr P. James	-	Pension Investment Officer
Mrs M. Evans Thomas	-	Principal Democratic Services Officer

In attendance from the Wales Audit Office:

Mr J. Garcia

Democratic Services Committee Room, County Hall, Carmarthen : 10.00 a.m. - 10.50 a.m.

1. APOLOGIES AND OTHER MATTERS

There were no apologies for absence.

The Chair referred to the fact that the Dyfed Pension Fund won the following awards at the recent LAPF Investments Awards:-

- Scheme Administration Award
- LGPS Fund of the Year

The Scheme was also shortlisted for the LGPS Investment Performance of the Year award.

The Director of Corporate Services congratulated all the staff involved in supporting the Dyfed Pension Fund on this excellent achievement and pointed out that the Dyfed Pension Fund was the only one to win two awards.

2. DECLARATIONS OF PERSONAL INTEREST

There were no declarations of personal interest.

3. MINUTES OF THE PANEL MEETING HELD ON 9TH MARCH, 2017

RESOLVED that the minutes of the Panel meeting held on 9th March, 2017 be received.

4. AUDIT OF FINANCIAL STATEMENTS REPORT 2016-17 (ISA 260)

The Committee considered the Audit of Financial Statements Report for the Dyfed Pension Fund which had been prepared by the Wales Audit Office. The report detailed the matters arising from the audit which required reporting under ISA 260.

The Auditor General is responsible for providing an opinion on whether the financial statements of the Dyfed Pension Fund give a true and fair view of their financial position as at 31st March, 2017 and of its income and expenditure for the year ended.

It was noted that it was the Auditor General's intention to issue an unqualified audit report on the financial statement and that there were no misstatements identified which remained uncorrected.

RESOLVED that the Audit of Financial Statement report 2016-17 be noted.

5. DYFED PENSION FUND FINANCIAL STATEMENTS 2016-17

The Committee considered the Dyfed Pension Fund Financial Statements for 2016/17.

The position of the Fund as at 31st March, 2017 valued the total assets at £2,343m, an increase of £443m from 31st March, 2016.

£2,335m of assets are managed by our Investment Managers and the remaining £8m is the balance of current assets and liabilities within Carmarthenshire County Council.

The value of the assets managed by our Investment Managers is as follows:-

BlackRock	£1,593m
Schroders	£ 185m
Partners Group	£ 37m
Baillie Gifford	£ 271m
Columbia Threadneedle	£ 249m
TOTAL	£2,335m

Investment Management fees for 2016/17 totalled £5.9m which equated to 0.25% of the total assets invested.

RESOLVED that the Dyfed Pension Fund Financial Statements as at 31st March, 2017 be received.

6. BUDGET MONITORING AS AT 31ST AUGUST 2017

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

The current position as at 31st August, 2017 forecast an underspend of £66.8m for 2017/18. From this figure £1.0m underspend related to cash items that had the most impact on the daily cash flow of the Fund. The remaining £65.8m underspend related to non-cash items.

Cash Items

Based on current activity to date, it was estimated that Benefits Payable and Transfers out will be underspent by £4.3m. This was mainly influenced by the

uncontrollable nature of lump sum payments and transfer out of the Fund. Contributions and investment income contributed a further £3.6m underspend. This was due to additional investment income required to keep a positive cash flow to cover £6.9m payment to the Investment Managers to meet investment commitments. The £7.9m underspend less £6.9m payments to the Investment Managers resulted in a £1.0m underspend estimate for the year.

Non-cash Items

£62.8m of the £65.8m underspend was due to an increased value of realised gains. This occurred from the segregated passive equities transition which took place in April 2017 as part of the Wales Pension Partnership joint procurement. The non-cash items have no impact on the daily cash flow of the fund.

RESOLVED that the Dyfed Pension Fund Budget Monitoring Report be received.

7. CASH RECONCILIATION AS AT 31ST JULY 2017

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

As at 31st July, 2017 £11.3m 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.

8. BREACHES REPORT

The Committee 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. 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 are 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 send to the Pensions Regulator.

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

9. IMPLEMENTATION OF THE MARKETS IN FINANCIAL INSTRUMENTS DERIVATIVE (MiFID II)

The Committee was advised that under the current UK regime, Local Authorities are automatically categorised as per se professional clients in respect of non-MiFID (Markets in Financial Instrument Directive) scope business and are categorised as per se professional clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local Authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain opt-up criteria.

Following the introduction of MiFID II (Markets in Financial Instrument Directive 2014/65) as from 3rd January 2018 firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt (local authority) as a per se professional client or elective eligible counterparty for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as retail clients unless they are opted up by firms to an elective professional client status.

Furthermore, the FCA has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

Asked whether the FCA would provide interim permission if the re-classification was not completed by 3rd January, 2018, the Treasury & Pensions Investment Manager explained that discussions have been held with the FCA over the past 12 months and preparatory work was in hand in order to ensure compliance by the deadline.

RESOLVED

- 9.1 that the report be received and the potential impact on investment strategy of becoming a retail client with effect from 3rd January, 2018 be noted;**
- 9.2 that applications for elected professional client status with all relevant institutions be commenced immediately in order to ensure that an effective investment strategy can continue to be implemented;**
- 9.3 that, in electing for professional client status, the loss of protections available to retail clients, as detailed in appendix 1 to the report, be acknowledged and agreed;**
- 9.4 that the appropriate approvals for the purposes of completing the applications and determining the appropriate basis of the application be delegated to the Section 151 Officer.**

10. URGENT ITEMS

The Chair reported that there were no urgent items to be considered.

CHAIR

DATE