

DYFED PENSION FUND COMMITTEE

Monday, 2 March 2020

PRESENT: Councillor D.E. Williams (Chair)

Councillors:

D.M. Cundy and T.J. Jones

The following Officers were in attendance:

C. Moore, Director of Corporate Services

A. Parnell, Treasury & Pension Investments Manager

K. Gerard, Pensions Manager

B. Owen, Pension Investment Officer

K. Thomas, Democratic Services Officer

Democratic Services Committee Room, County Hall, Carmarthen, SA31 1JP - 10.00 - 11.30 am

1. APOLOGIES AND OTHER MATTERS

There were no apologies for absence

The Chair welcomed members of the public to the meeting and advised that he had decided on this occasion to exercise his discretion and allow them to ask questions to which written responses would be provided, subject to those questions being also submitted in writing following the meeting.

The following two questions were tabled (at the conclusion of item 13):-

1. Why would it be likely to cause financial harm to share the Independent Advisor's performance report and the Northern Trust Performance with the public?
2. What is the public interest test? And how can it be challenged?

The Director of Corporate Services welcomed Mr Adrian Brown (as an observer) to his first meeting of the Committee following his potential appointment as Independent Advisor to the Dyfed Pension Fund.

2. DECLARATIONS OF PERSONAL INTERESTS

There were no declarations of personal interest.

3. MINUTES OF THE MEETING OF THE COMMITTEE HELD ON THE 28TH NOVEMBER, 2019

RESOLVED that the minutes of the meeting of the Committee held on the 28th November, 2019 be signed as a correct record.

4. 2019-2020 AUDIT PLAN

The Committee received a report on the 2020 Audit Plan for the Dyfed Pension Fund and noted that it would be submitted for formal adoption to the Council's

Audit Committee on the 20th March 2020.

The Committee was advised that whilst the Plan followed the same format, as in previous years, Exhibit 2 of the report highlighted those risks of material misstatement the Auditor considered to be significant and required special audit consideration. Those related to Management Override, Triennial Valuation and the Mc Cloud Judgement.

The Committee was further advised that whilst the timescale for completing the Audit of the 2019-2020 Accounts was 1st December 2020, in accordance with the Accounts and Audit Regulations, the Auditor was proposing their completion by September 2020, following completion of the Council's Accounts.

The Director of Corporate Services confirmed that whilst the Audit of the Dyfed Pension Fund Accounts would not be completed until September, it was his intention to produce those ready for audit simultaneously with the Council's accounts.

The Director of Corporate Services referred to the identified risk highlighted by the auditor in relation to the Triennial Valuation and advised the valuation had been completed, with the final report anticipated shortly.

RESOLVED that the 2020 Audit Plan be received.

5. BUDGET MONITORING 1 APRIL 2019 - 31 DECEMBER 2019

The Committee received the Dyfed Pension Fund Budget Monitoring report which provided an update on the latest budgetary position in respect of 2019/20 as at the 31st December, 2019. It was noted that with an estimated total expenditure of £92.4m and estimated total income of £92.6m, the fund was recording a £0.2m underspend to budget in cash terms.

It was reported that with regard to Expenditure from the fund the net effect of Benefits payable and Transfers out was an overspend of £1,590k, mainly attributable to deferred pensioner lump sums which had resulted in a higher than anticipated pension increase. Management expenses were also anticipated to be £2,326k above budget.

With regard to Fund income, the net effect of contributions, investment income and transfers in was an increase of £4.9m mainly attributable to a decrease in investment income of £0.6m, an increase in transfers in of £3.7m together with a £1.8m increase in contributions

The Director of Corporate Services referred to the Benefits payable element of the report and advised that related to the payments being made to the fund's existing pensioners. As new starters to the fund would not be in receipt of a pension for some 40 years, it was important the fund maintained sufficient assets to meet its current and future liabilities. That required investing in a diversified portfolio which included the consideration of low carbon investments

RESOLVED that the Dyfed Pension Fund Budget Monitoring Report for the period 1st April – 31st December, 2019 be received.

6. DYFED PENSION FUND BUDGET 2020-2021

The Committee received the Dyfed Pension Fund Budget for 2020/21. It was noted that the cash related expenditure for 2020/21 had been set at £96.2m against a cash related income of £96.2m resulting in a net budget of £0 and providing 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 £85.1m which included provision for a 1.7% pensions increase, based on the September 2019 CPI, together with a 3.0% net effect for new pension members. Management expenses had been estimated at £8.5m, of which, £6.6m had been budgeted for investment manager fees.

It was further noted that income contributions had been estimated at £80.9m comprising £59.8m employer and £21.1m employee contributions, with those rates having been based on the 2019 valuation, 2.75% for pay increases and a further 2% for pay increments in 2020/21. Investment income had been estimated as being £14m 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 Director of Corporate Services confirmed the Fund was experiencing greater numbers of pensioners than contributors hence robust cash flow monitoring was becoming more crucial. Other factors impacting on the Fund included making provision for redundancy/retirement pensions whilst not necessarily knowing the detailed plans employing bodies may have on their staffing levels. As a consequence, it was important the Fund maintained sufficient cash balances. He also confirmed that whilst people were living longer, the Fund's actuaries had advised rising longevity rates had stabilised.

RESOLVED that the Dyfed Pension Fund Budget for 2020/21 be approved.

7. CASH RECONCILIATION AS AT 31ST DECEMBER 2019

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 December, 2019 cash in the sum of £17.7m 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. That balance was higher than normal as some employing bodies paid their contributions in advance. However, it would reduce significantly by the end of March, 2020

RESOLVED that the Dyfed Pension Fund Cash Reconciliation report, as at 31st December, 2019 be received.

8. BREACHES REPORT 2019-2020

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 set 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 provided 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, no report had been sent to the Pensions Regulator.

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

9. RISK REGISTER 2020-2021

The Committee received for consideration the 2020-21 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 on the following areas:

- 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)

The risks had been reviewed and some minor adjustments made. They would continue to be reviewed on a quarterly basis and any amendments drawn to the Committee's attention.

RESOLVED that the Risk Register be approved

10. DRAFT FUNDING STRATEGY STATEMENT

The Committee received for consideration the Draft Funding Strategy Statement that aimed to set out a clear and transparent funding strategy identifying how each Fund Employers future pension liabilities were to be met following the triennial valuation as at the 31st March, 2019. The Draft Statement had been subject to a

period of consultation, ending on the 28th February, 2020 and following evaluation of responses received, a final Statement would be issued. It was noted that the Fund was currently 104% funded, and was one of the top performing funds in the country.

The Director of Corporate Services advised the Committee that the Fund would also be looking at its Asset Valuation Strategy and where those assets were invested within the markets. That review would include examination of the ethical, low carbon and renewable energy markets whilst also examining how to diversify away from fossil fuels, as requested in the Notice of Motion adopted by the Council in October, 2019.

RESOLVED that the Draft Funding Strategy Statement be approved.

11. BUSINESS PLAN 2020 - 2021

The Committee received for consideration the Dyfed Pension Fund Business Plan for the period 2020-2021 detailing how the Fund was to achieve its objectives and ensuring the allocation of sufficient resources to meet those objectives.

RESOLVED that the Dyfed Pension Fund Business Plan for the period 2020-21 be approved.

12. WALES PENSION PARTNERSHIP LINK AND RUSSELL UPDATE

The Committee received an update report by Link and Russell on the Wales Pension Partnership (WPP), on the progress and milestones of both the following Sub Funds together with the Engagement Protocol and the meeting of Key Dates:-

- Tranche 1 – Global Equity
- Tranche 2 – UK and European Equities
- Tranche 3 – Fixed Income
- Tranche 4 – Private Markets.

The Committee noted the current Global Growth equity totalled £2.4b and was achieving an excess return of 0.23%. The Director of Corporate Services referred to the operation of the Global Equity Fund and the importance of encouraging Fund Managers to invest in renewable energy whilst having regard to the need to maximise returns on those investments.

RESOLVED that the Wales Pension Partnership Link and Russell Update be received.

13. INDEPENDENT ADVISER CONTRACT

The Committee was advised that following a recent tender exercise Mr Adrian Brown, an affiliate of M.J. Hudson, had been appointed as Independent Advisor to the Dyfed Pension Fund.

The Director of Corporate Services in welcoming Mr Brown to the meeting referred to the work and advice provided by the Fund's previous advisor, Mr Lambert, over a number of years and expressed his appreciation for that advice.

RESOLVED that the report be received.

14. EXCLUSION OF THE PUBLIC

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.

15. INDEPENDENT ADVISER PERFORMANCE & RISK AT 31 DECEMBER 2019

Following the application of the public interest test it was **UNANIMOUSLY RESOLVED**, pursuant to the Act referred to in Minute Item 14 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 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, 2019.

RESOLVED that the Independent Investment Adviser Report as at 31st December, 2019 be noted.

16. NORTHERN TRUST PERFORMANCE REPORT 31 DECEMBER 2019

Following the application of the public interest test it was **UNANIMOUSLY RESOLVED**, pursuant to the Act referred to in Minute Item 9 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 Committee considered the Northern Trust Performance report for the Dyfed Pension Fund as at 31st December, 2019 which provided performance analysis at a total fund level and by investment manager for the periods up to inception.

RESOLVED that the Northern Trust Performance report for the Dyfed Pension Fund as at 31st December, 2019 be received.

CHAIR

DATE