

Local Pension Board of Warwickshire Pension Fund

26 February 2018

Agenda

The Warwickshire Local Pension Board will meet in **Committee Room 2, Shire Hall, Warwick on Monday 26 February 2018 @ 10am**

1. **Introductions and General business**
 - i) **Apologies**
 - ii) **Board Members' Disclosures of Interests** (as stipulated by the Public Sector Pensions Act 2013 and set out in Annex A of the Agreed Board Terms of Reference).
 - iii) **Minutes of the meeting held on 24 November 2017**
2. **Review of Risk Register**
3. **Pension Fund Administration Update**
4. **Pension Annual Report Administration Update**
5. **Pooling Verbal Update**
6. **MIFID II verbal update**
7. **Review of the Minutes of the Pension Fund investment Sub-Committee meeting held on 18 December 2017.**
8. **Any other business**

David Carter
Joint Managing Director
Shire Hall
Warwick

Membership of the Local Pension Board

Keith Bray (Chair), Jeff Carruthers, Andy Crump, Keith Francis, Alan Kidner, Councillor Dave Parsons and Councillor Jill Simpson-Vince

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**Minutes of the meeting of the
Local Pension Board of Warwickshire Pension Fund
held on 24 November 2017**

Present:

Members

Keith Bray (Chair), Andy Crump, Keith Francis, Alan Kidner, Councillor Dave Parsons and Councillor Jill Simpson-Vince

Officers

Helen Barnsley, Democratic Services Officer
Gary Dalton, Employment Solicitor
Mathew Dawson, Treasury and Pension Fund Manager
Chris Norton, Strategic Finance Manager

Other invitees

Richard Warden – Hymans Robertson
Natalie Edelsten – Hymans Robertson

1. Introductions and General business

The Chair welcomed Gary Dalton, Employment Solicitor and Councillor Dave Parsons to the meeting

(1) Apologies

None

(2) Board Members' Disclosures of Interests

Keith Bray (Chair) informed the meeting that he is the Forum Officer for the Local Authority Pension Fund Forum. In addition he stated that on occasion he undertakes work for Barrack, Rodos and Bacine, a law firm based in the United States of America. This work is separate from his role as Chair of the Local Pension Board.

Andy Crump explained that following the May 2017 elections he is now a member of Warwickshire County Council. For the purposes of the Local Pension Board he was acting in his work capacity. He had been advised that this did not present any conflict. The meeting was informed that Andy Crump would, however, be looking to stand down from the Local Pension Board.

Alan Kidner stated that his brother's wife is an employee of JP Morgan. It was recognised that this was unlikely to present any issues but still worthy of recording.

(3) Minutes of the meeting held on 11 July 2017

With regards the accuracy of the minutes, Alan Kidner noted that with regards to the Local Pensions Board (LPB) Survey (point 6, page 4) the minutes should read “a recent Scheme Advisory Board (SAB) survey”. This was duly amended.

Under matters arising, clarification was sought regarding the location of the Register of Breaches (page 5). It was agreed that Mathew Dawson will check and report back to the Board.

It was agreed that the Risk Register will be added to the agenda of the next meeting for review.

With regard to Indemnity Insurance, Gary Dalton was able to confirm that the Local Authority Insurance Company will indemnify any board members up to the value of £1million – including those who are not directly employed by Warwickshire County Council (WCC). Written confirmation of this will be provided to the Board and the subject will be added to the agenda for discussion at the next meeting.

Following a discussion about the location of the LPB’s webpage details, on the main WCC website, it was agreed that Mathew Dawson would look into this. It was noted by members that the main WCC website has recently been updated and that this may have led to the LPB’s website being re-located.

Finally, it was noted that the action from page 6 (Question 34) had not been completed. It was agreed that Chris Norton will follow this up.

With the alteration requested by Alan Kidner the minutes of the meeting of the Board held on 11 July 2017 were agreed as an accurate record for signing by the Chair.

2. Pension Annual Report

Keith Bray, Chair of the LPB, commented that the report was well written and interesting. It was agreed that any comments regarding any errors/typos would be sent directly to Neil Buxton. It was also noted that there would be an administration update at the next meeting which include any corrections.

With regard to the information on page 12 of the report - Staff, Advisors and Investment Managers – Alan Kidner requested to know how many investment managers have signed up to the SAB – the voluntary board of transparency on transactional data. Mathew Dawson was able to confirm that Legal & General have signed up. It was also noted that Boarder to Coast Pension Partnership (BCPP) will have to take into account whether an investment manager has signed up to SAB or not – transparency will have an effect on management costs.

It was confirmed that the Top Ten Holdings at 31 March 2017 (page 16 of the report) excluded pooled products.

Following a question from Alan Kidner regarding the safeguards in place for Stock Lending, it was confirmed that every transaction is reported with full access to view transactions. It was also noted that there is not as much stock lending as in previous years.

It was agreed that Mathew Dawson will send out the Fund Business Plan to all board members and that it will be added to the agenda for the next meeting.

There is a correction on page 66 of the report, with the exception of the Chair of the Board, members do not receive allowances. They receive expenses.

Following a discussion about the companies that review the report before it is published, it was agreed that Mathew Dawson will provide the consistency opinion from Grant Thornton to all members. It was noted that this information is available on the website.

The Chair thanked Alan Kidner for his constructive feedback and positive intervention.

3 Actuarial Update – Hymans Robertson

Richard Warden and Natalie Edelsten gave a presentation to the Board which provided an oversight of the process of valuation. Hymans Robertson act as a critical friend to the LPB. The last review was completed in 2016.

The presentation included the following points –

- Warwickshire LPB must comply with legislation; a review every three years.
- Each review is a “health check” on the funds
- Each review takes into account the experience of the last review (2013) and considers and manages the risk to funds.
- The ultimate objective of each review is that there is enough money to pay all the members of the fund. There are assets that work for the fund but it is also reliant on future contributions and future investment returns.

The Board noted that assumption setting is as objective as possible but with agreed assumptions as detailed on page 11 of the hand out. The RPI information is a market assumption which does take into account inflation.

With regard to the data required in order to complete a review it was noted by the Board that there is a vast amount of data. Following a question relating to the accuracy of the data, it was confirmed that incorrect data can have a big impact on liability figures. All data is checked by Hymans Robertson and WCC Officers.

Following a question regarding the differences in the reported Whole Fund Levels; the report shows 82% on page 18 and over 100% on page 19; it was confirmed that this was as a result of different sets of assumptions and approaches used by the four actuaries. The SAB has introduced a like-for-like set of assumptions that all funds use for comparison purposes.

4. Pooling – verbal update with presentation

Matthew Dawson, Treasury and Pension Fund Manager gave a presentation to the Board and provided a background and update to Pension Pooling.

Following a recommendation from the Hutton Report in 2011, Local Government Pension Schemes were advised to pool together in order to become more efficient.

WCC chose BCPP to manage their fund because they are FCA regulated and offer a 'shopping basket' of funds – meaning they will only buy what the organisation likes.

At the moment the WCC pool had over 900,000 members and over 2,000 employers.

The primary aims for the future are to increase scale and resources, improve performance, drive down costs and improve efficiency.

It was also noted by the Board that the tender for the third party adviser is due in early 2018.

It was also noted that consultants are available to offer training and support to the Pension Fund Investment Sub-Committee if needed. The focus for WCC will be what is BCPP doing with the fund? What are they return targets? Who is monitoring the BCPP?

There was a discussion regarding the possibility of inviting BCPP to a future meeting of the LPB.

5. MIFID II – verbal update with presentation

Matthew Dawson, Treasury and Pension Fund Manager gave a presentation to the Board confirming that MIFID II was a new E.U. Directive to protect investors. It introduces new systems and controls and avoids any conflicts of interest.

The main concern for the LPB is registering for Client Classification. If the registration process is not complete by 3 January 2018 then the fund will automatically be registered as a Retail Investor; this would mean that there is less choice of product/fund manager. Retail Investors are subject to unfavourable fees and no marketing.

A crucial area of concern regarding the registration process is that, if the registration process is not complete and the fund is registered as a Retail Investor then any manager that is already working for the fund, may no longer be able to.

Registering for Client Classification will be an ongoing process and funds have to register annually.

6. Review of the Minutes of the Pension Fund Investment Sub-Committee for 11 September 2017

The Board reviewed the minutes. There were no amendments or matters arising.

7. Any other business

None

The board rose at 15.15.

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Chair

Key Risks & Controls**Appendix A**

The Warwickshire Pension Fund has an active risk management programme in place.

The Risk Register summarises key risks under the following headings:

- Investment
- Funding
- Strategic
- Hazard
- Operational

Investment Risks:

Risk	Control Mechanism	Risk Action
<p>Fund assets fail to deliver returns over the long term in line with the expected returns underpinning the actuarial valuation and funding strategy.</p> <p>Impact: 5 Likelihood: 3 Risk Level: High</p>	<p>Assumptions on long term investment returns are made on a relatively prudent basis (as recommended by the actuary) to reduce the risk of under-performance.</p>	<p>Analysis of the funding position is carried out at regular three-yearly actuarial valuations.</p> <p>Interim annual valuations are provided when considered necessary.</p>
<p>Falls in equity markets lead to a short term deterioration in funding levels and increased contribution requirements from employers.</p> <p>Impact: 4 Likelihood: 3 Risk Level: Medium</p>	<p>A long term stabilisation approach has been agreed in setting contribution rates for secure open employers.</p> <p>The 'growth' component of the Fund's strategy has been diversified across property, hedge funds and infrastructure in order to reduce the exposure to short term stock market volatility.</p>	<p>The composition of the Fund's growth asset portfolio will be reviewed on a regular basis and as part of the 2017 strategy review.</p> <p>The funding strategy recognises that pension funding has a long term time horizon which can dampen these short term volatile movements and pressure on contribution rates.</p>

Risk	Control Mechanism	Risk Action
<p>Inappropriate long-term investment strategy.</p> <p>Impact: 5 Likelihood: 2 Risk Level: Medium</p>	<p>The long term investment strategy is based on modelling of the Fund's specific liabilities and funding position under a range of economic scenarios. Advice is received from professional advisors.</p> <p>There is additional advice provided by the Fund's independent advisor.</p>	<p>The strategy is reviewed formally every three years in conjunction with the actuarial valuation – and more frequently when there has been a material change in market conditions.</p> <p>The Actuary will also provide an independent view of the Fund's investment strategy as and when required.</p>
<p>High levels of inflation in the future are not matched by asset returns</p> <p>Impact: 4 Likelihood: 2 Risk Level: Medium</p>	<p>The Fund is invested heavily in real assets (equities, property, infrastructure) which are expected to offer some protection against higher levels of inflation over the medium to long term.</p>	<p>The risk attached to future inflation levels is assessed within the liability modeling exercises and considered as part of the regular reviews of investment strategy.</p>
<p>Fund faces short term liquidity problems and is unable to meet benefit outgoings.</p> <p>Impact: 5 Likelihood: 2 Risk Level: Medium</p>	<p>Expected cash movements are forecast and monitored on a regular basis.</p> <p>Arrangements have been made with investment managers to receive income on a regular basis and to be able to access additional income when required.</p>	<p>The Fund also has the option of selling units in pooled funds at very short notice.</p>

Risk	Control Mechanism	Risk Action
<p>Underperformance by active investment managers leads to poor Fund returns.</p> <p>Impact: 4 Likelihood: 3 Risk Level: Medium</p>	<p>Regular quarterly performance monitoring reports are received.</p> <p>Managers are also monitored by the manager research team of the investment advisors.</p> <p>The Fund makes extensive use of passive management across equities and bonds.</p>	<p>Continued under-performance – or material changes in other relevant business factors - will lead to formal review of the mandate by the Investment Sub-Committee, with a view to possible contract termination.</p> <p>Assets can be switched rapidly to the Fund's passive manager.</p>
<p>A change to the Fund's investor status under MiFID 2</p> <p>Impact: 5 Likelihood: 2 Risk Level: Medium</p>	<p>Officers are liaising with LGPS peers regarding the publication of FCA guidance.</p> <p>It has been identified that a significant administrative burden may arise in Q4 2017.</p>	<p>Officers continue to liaise with managers regarding the likely implications.</p>
<p>Poor returns as a result of new asset pooling arrangements</p> <p>Impact: 4 Likelihood: 3 Risk Level: Medium</p>	<p>Asset allocation decisions will continue to be made by the Committee.</p> <p>Management of the individual BCPP funds will be the responsibility of a professional investment management team appointed by or employed by BCPP.</p>	<p>Detailed performance reporting of all BCPP investments will be available to the Committee on a regular basis.</p>
<p>Inadequate governance arrangements within BCPP lead to poor investment decision-making</p> <p>Impact: 4 Likelihood: 3 Risk Level: Medium</p>	<p>A professionally staffed FCA regulated company is being established for asset management purposes – with a joint oversight committee for participating funds.</p>	<p>The Fund will have representation on both the BCPP Shareholder Board and joint governance committee.</p>

Risk	Control Mechanism	Risk Action
<p>Inappropriate choice of new investment manager.</p> <p>Impact: 3 Likelihood: 2 Risk Level: Low</p>	<p>A rigorous procurement exercise is carried out and advice taken from the professional advisors and independent advisor.</p>	<p>Members of the Investment Sub-Committee are involved in all decisions relating to the appointment of new managers.</p> <p>Under pooling, the responsibility for appointing new managers will pass to the BCPP team.</p>
<p>Fraud or counterparty default by investment managers / brokers / custodian leads to losses for the Fund.</p> <p>Impact: 4 Likelihood: 1 Risk Level: Low</p>	<p>Securities are either held in 'ring-fenced' accounts or pooled funds.</p>	<p>Fund managers produce detailed internal controls documents which are independently audited.</p> <p>Client agreements with new service providers are subject to legal review</p>
<p>Non-compliance with CIPFA/Myners Code of Practice</p> <p>Impact: 1 Likelihood: 1 Risk Level: Low</p>	<p>Level of compliance is published annually in the Investment Strategy Statement and Pension Fund Annual Report.</p>	<p>Adherence to Code of Practice is reviewed on a regular basis.</p>
<p>High transition costs incurred through transfers of assets into BCPP pool.</p> <p>Impact: 2 Likelihood: 3 Risk Level: Low</p>	<p>A professional transition manager will be employed to oversee and implement the significant transition activity required for pooling of assets.</p>	<p>Full cost analysis of all transition activity will be available.</p>

Funding Risks:

Risk	Control Mechanism	Risk Action
<p>Fall in risk free returns on gilts, leading to rise in value placed on liabilities and increased cost of benefits</p> <p>Impact: 5 Likelihood: 3 Risk Level: High</p>	<p>Inter-valuation monitoring and asset /liability modelling as above. Some investment in bonds helps to mitigate this risk.</p>	<p>Allowance for future volatility on the returns available on gilts is built into the ALM and allowed for in the funding strategy. In particular, the Actuary's long term view is that gilt yields are on average likely to revert to a higher level than implied by markets at the 2016 actuarial valuation. This approach recognises that gilt markets have been distorted by recent unusual events (e.g. Brexit) and historically interest rates have reverted to a higher long term average.</p>
<p>Declining active payrolls leading to underpayment of deficit recovery amounts.</p> <p>Impact: 5 Likelihood: 4 Risk Level: High</p>	<p>Active membership is regularly monitored. Recruitment advertising campaigns are regularly undertaken. Auto enrolment (initial staging or triennial re-enrolment) may encourage some non-members to take up membership.</p>	<p>The Fund insists that most employers make deficit recovery payments as monetary amounts, rather than as a percentage of payroll.</p>
<p>Cross subsidies between employers become significant and affect employer asset share calculations</p> <p>Impact: 4 Likelihood: 4 Risk Level: High</p>	<p>The Pension Fund uses a unitised asset tracking system to determine employer asset shares</p>	<p>Fund uses the cashflow approach employed under the unitised asset tracking system to reduce cross subsidy risk</p>

Risk	Control Mechanism	Risk Action
<p>Pensioners living longer</p> <p>Impact: 3 Likelihood: 3 Risk Level: Medium</p>	<p>Mortality assumptions set by the Actuary allow for future increases in life expectancy.</p> <p>'Baseline' mortality assumptions (i.e. current death rates) are based on the combined experience from Club Vita data of around 160 large occupational schemes. This gives the Fund a set mortality rates that are tailored to the unique membership profile of the Fund.</p>	<p>Mortality assumptions are reviewed every three years at each actuarial valuation.</p> <p>Annual updates on changes to mortality rates are provided by Club Vita and highlight the impact on liabilities.</p> <p>Pension reform means that retirement ages in the Fund on post 2014 benefits will be linked to State Pension Age (SPA). The Government is committed to adjusting the SPA if mortality rates change in future, which will help to manage this risk within the Fund.</p> <p>Changes to life expectancies are covered under the LGPS cost sharing mechanism e.g. if longevity increases, benefit levels may be reduced.</p>
<p>Changes to regulations, e.g., more favourable benefits package, potential new entrants to scheme.</p> <p>Changes to national pension requirements and/or HMRC rules.</p> <p>Impact: 3 Likelihood: 3 Risk Level: Medium</p>	<p>The Pension Fund is alert to the potential creation of additional liabilities.</p> <p>The Pension Fund will consult employers where appropriate.</p>	<p>The Pension Fund considers all consultation papers and comments where appropriate and necessary.</p>

Risk	Control Mechanism	Risk Action
<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p> <p>Impact: 3 Likelihood: 3 Risk Level: Medium</p>	<p>The Regulations require the Actuary to undertake a cessation valuation to assess the size of any debt at exit. The debt is levied on the departing employer. However, the Pension Fund believes that it is often too late to fully address the position at that point.</p>	<p>The Fund mitigates this risk by:</p> <ul style="list-style-type: none"> • Seeking a funding guarantee from another scheme employer, or external body, wherever possible. • Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. • Carrying out covenant analysis to inform the Fund of an employer's financial strength and ability to make good any funding deficit and reflecting this in the risk based approach used to set contribution rates. • Vetting prospective employers before admission. • Where permitted under the Regulations, requiring a bond to protect the scheme from the extra cost of early retirements.
<p>Pension Fund unaware of structural changes in an employer's membership (e.g., large number of retirements). Pension Fund is not advised of an employer closing the scheme to new entrants.</p> <p>Impact: 3 Likelihood: 4 Risk Level: Medium</p>	<p>The Actuary may be instructed to revise the rates and adjustments certificate to increase an employer's contributions between triennial valuations.</p> <p>Employers are charged the extra capital cost of (non-ill-health) early retirements.</p>	<p>The Pension Fund actively monitors membership movements, especially with regard to falling active membership and increases in deferred and pensioner numbers.</p>

Risk	Control Mechanism	Risk Action
<p>Deterioration in funding because of a mismatch of assets and liabilities.</p> <p>Impact: 5 Likelihood: 2 Risk Level: Medium</p>	<p>Triennial actuarial valuations, supplemented with interim valuation funding updates that reflect changes to market conditions.</p> <p>Asset-liability modelling (ALM) is undertaken at least once every three years to assess the long-term financial health of the Fund.</p>	<p>Investment Sub-Committee Board receives regular reports on the Fund's performance and is aware of the potential impact of significant funding risks e.g. lower interest rates, increasing life expectancies.</p> <p>The Actuary, with input from the investment advisor, discusses and agrees the ALM output with officers and members and sets employer contribution rates at levels that are designed to keep the Fund solvent over the long term.</p> <p>Fund can consider implementing employer level investment strategies to reduce the mismatch risk where it would be beneficial to the employer's circumstances</p>
<p>Incorrect membership data leading to inaccurate assessment of liabilities and/or contribution rate</p> <p>Impact: 4 Likelihood: 3 Risk Level: Medium</p>	<p>The Pension Fund regularly checks and reviews membership data submitted by employers.</p>	<p>The Pension Fund holds regular workshop and training days with employers to explain data submission and is on hand to discuss any queries</p> <p>Actuary carries out high level data checks on membership data received for calculation of liabilities and contribution rate</p>

Risk	Control Mechanism	Risk Action
<p>Incorrect financial data leading to inaccurate assessment of employer asset shares</p> <p>Impact: 4 Likelihood: 3 Risk Level: Medium</p>	<p>The Pension Fund regularly checks and reviews financial data against membership data and general ledger.</p>	<p>Actuary carries out high level data checks on financial data received for calculation of employer asset shares</p>
<p>Employer actions (e.g. excessive salary increases, outsourcings) lead to unanticipated liability increases and reduce affordability of contributions</p> <p>Impact: 4 Likelihood: 2 Risk Level: Medium</p>	<p>The Fund engages with employers to ensure early awareness of specific actions</p>	<p>The Fund reserves the right to review contribution rates and funding strategy in light of employer actions</p>
<p>Effect of possible increase in employers' contribution rate on service delivery of Pension Fund employees.</p> <p>Impact: 2 Likelihood: 3 Risk Level: Low</p>	<p>Feedback is sought on employer's ability to absorb contribution rises.</p> <p>Mitigation of the impact of revised rates through deficit spreading, phasing-in of contribution rises and, for open secure employers, the use of a contribution stability mechanism.</p>	<p>Employers are consulted with through senior management contacts, the Pension Fund AGM, the Funding Strategy Statement consultation and regular bulletins.</p>
<p>The Pension Fund failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.</p> <p>Impact: 2 Likelihood: 2 Risk Level: Low</p>	<p>The Pension Fund requires employers to disclose forthcoming changes.</p>	<p>Fund officers monitor via the local and national press for developments in admitted bodies that might have a detrimental effect on the Fund.</p>

Strategic Risks:

Risk	Control Mechanism	Risk Action
Reputation risk with employers and members Impact: 2 Likelihood: 2 Risk Level: Low	Group and senior management work hard to foster good relations with employers and members and provide a quality service.	Complaints are acted on immediately and monitored and reported to senior management.

Hazard Risks:

Administration records corrupted or destroyed. Impact: 5 Likelihood: 1 Risk Level: Low	The administration team has now digitally imaged all active and preserved member records.	Office is subject to corporate and departmental disaster planning. Data back-ups are stored off site.
Financial fraud Impact: 5 Likelihood: 1 Risk Level: Low	Comprehensive system of internal controls adopted by management. Fund manager reports of internal control are checked by Pension Fund staff.	Scrutiny by internal and external audit processes.
Fire/flood/terrorism Impact: 5 Likelihood: 1 Risk Level: Low	Data well backed up on a regular basis. Main investment data is held by the Fund's global custodian and available online.	Office is subject to corporate and departmental disaster planning.

Operational Risks:

Insufficient number of external contract service providers, therefore insufficient choice and consequent poor service Impact: 4 Likelihood: 2 Risk Level: Medium	Regular monitoring of the service provider market.	Recent procurement tender processes have been achieved satisfactorily with no signs of lack of market interest.
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Risk	Control Mechanism	Risk Action
<p>Poor communication</p> <p>Impact: 2 Likelihood: 2 Risk Level: Low</p>	<p>Communication strategy is in place and adhered to.</p>	<p>Feedback taken from scheduled and admitted bodies at the Fund's annual meeting.</p> <p>Variety of means employed for communication to members.</p>
<p>Lack of succession planning</p> <p>Impact: 2 Likelihood: 2 Risk Level: Low</p>	<p>Office has experienced turnover through natural wastage.</p>	<p>Staff levels are regularly monitored. Regular discussions take place as to the implications of future staff resignations and retirement.</p>
<p>Staffing levels failing to support required service delivery</p> <p>Impact: 2 Likelihood: 2 Risk Level: Low</p>	<p>Regular monitoring takes place via comprehensive quarterly reports.</p>	<p>Recent recruitment has been achieved as desired.</p>
<p>Failure to establish adequate ICT infrastructure.</p> <p>Impact: 3 Likelihood: 2 Risk Level: Low</p>	<p>The Pension Fund works closely with providers.</p>	<p>Requirements are monitored continually. Data is "cleansed" before each actuarial valuation.</p>
<p>Inadequate user training</p> <p>Impact: 2 Likelihood: 2 Risk Level: Low</p>	<p>Full programme of user training currently being implemented backed up with training evaluation feedback.</p>	<p>Training is monitored on a constant basis.</p>
<p>Increasing administration expenses (met from the normal contribution rate)</p> <p>Impact: 2 Likelihood: 2 Risk Level: Low</p>	<p>The Pension Fund Administration budget is subject to the Council's approval and monitoring process. Regular reports are monitored by officers.</p>	<p>The Council continues to seek value for money with regard to fund administration by reviewing all vacancies, intelligent use of IT resources and benchmarking.</p>

Local Pension Board of the Warwickshire

Pension Fund

26 February 2018

Administration update

Recommendation

That the Local Pension Board of the Warwickshire Pension Fund notes and comments on the report.

1.0 Introduction

1.1 This report seeks to update the Board on a number of different areas relating to the administration of the Warwickshire Pension Fund. Board members are requested to note the report and comment on any areas of interest or concern.

2.0 Matters arising from the meeting of 24 November 2017

2.1 **Breaches Register;** the administration team is finalising a register of breaches detailing late payment of contributions (employee and employer) and late submission of monthly and annual returns.

2.2 **Webpage location;** the team is still experiencing problems with the location of the webpage for the pension fund. The web team for the County Council has taken the view that pensions are a “staff benefit” and had not appreciated that Fund deals with over 180 employers and other stakeholders who require access. We continue to discuss this with the County Council who host the website

2.3 **Staffing figures;** I understand the confusion with how these are portrayed by excluding staff which are shown as working on other areas such as IT, Payroll etc. This is shown this way to illustrate the amount of time spent on these functions but at the end of the day this time is still on the administration of the Fund. For example, we estimate that 1.5 staff is spent on Communications. This is a broad illustration of an officer and others spending time on communicating the provisions of the LGPS to members i.e. the website, annual benefit statements, newsletters, guides, visits to employers, presentations etc.

The baseline figure of 10.6 staff is the number of staff who are literally updating records and providing calculations of benefits and estimates etc.

The member shown as work for other schemes will be the officer who deals with the Firefighter pension schemes and although this is not full-time there will be other support for this function from elsewhere.

Attached at Appendix 1 is an anonymised structure chart.

- 2.4 **Internal Disputes Resolution Procedures;** The cases that are brought to the attention of the Fund remain at around two / three per year. These will be cases that have gone into the IDR process. In addition to these there will be ill-health cases where the member has been unsuccessful with an application for ill-health retirement or disagrees with the level of ill-health awarded. These tend to remain with the employer and are not brought to the attention of the Fund.

There will also be complaints about service provision e.g. delays in providing information or questions about an entitlement which have not gone to IDR.

3.0 Benchmarking

- 3.1 The Fund continues to be a member of the CIPFA pension administration benchmarking club.
- 3.2 Attached at Appendix 2 is a summary report issued by CIPFA.

4.0 New Employers

- 4.1 In accordance with the Fund's Admissions and Terminations policy (which was approved by the Staff and Pensions Committee in June 2017), all prospective employers must submit an application for membership to the Committee for approval.
- 4.2 As indicated at the July meeting, a template application is available for new employers together with (where relevant) a template admission agreement.
- 4.3 Below is a list of employers approved by the Staff and Pensions Committee since July 2017:

- Avon Dassett Parish Council
- Burton Dassett Parish Council
- Heathcote Free School (Community Academy Trust)
- Salford Priors Primary School (Coventry Diocese Academy Trust)
- Burton Green Primary School (Coventry Diocese Academy Trust)
- Leek Wootton All Saints Primary School (Coventry Diocese Academy Trust)

- Quest Academy (MacIntyre Academies)
- Southam College (Stowe Valley Multiple Academy Trust)
- Bishops Itchington Primary School (Stowe Valley Multiple Academy Trust)
- Southam Primary School (Stowe Valley Multiple Academy Trust)
- Stockton Primary School (Stowe Valley Multiple Academy Trust)
- Solihull College
- Brooke School (Unity Multiple Academy Trust)
- Woodlands School (Unity Multiple Academy Trust)
- Educaterers
- Churchill Contract Services
- Vinshires Plumbing and Heating
- Superclean

5.0 Cessations

5.1 The Fund is also dealing with several cessations.

5.2 **Solihull School** is an independent school which is a longstanding member of the Fund backdating to when Solihull was still within the County boundaries (pre 1974). The school has decided to withdraw future accrual to members with the last member leaving in October 2017. The school will pay a capital sum to the Fund to secure pension rights of the former members.

5.3 **Stratford upon Avon College** has merged with a neighbouring college in Solihull. All active, preserved and retired members will be transferred to Solihull College which, is administered by the West Midlands Pension Fund. Although the merger took place on 1 February 2018, the Order issued by the Secretary of State confirming the transfer of pension rights, stipulated that the former active members of Stratford upon Avon College remain in the Warwickshire Fund until April 2018 (see list of new employers above).

The Actuaries for the Warwickshire and West Midlands funds will agree a settlement figure payable by the Warwickshire.

5.4 **Community Admission Bodies** the Fund is currently part way through confidential negotiations with several charities to exit the Fund.

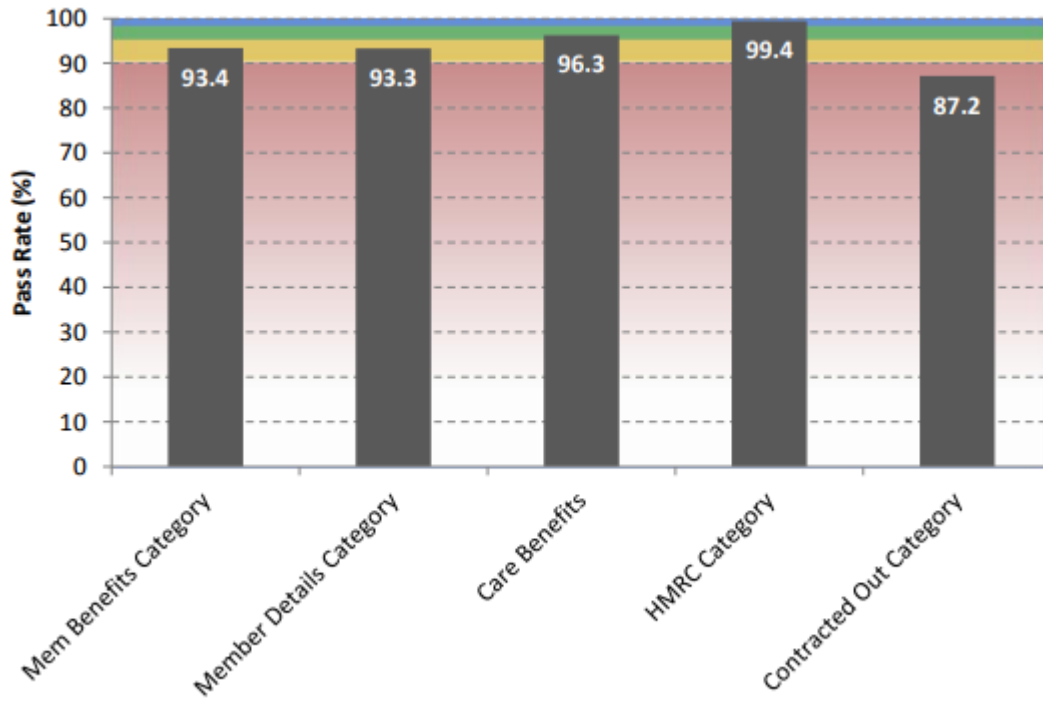
6.0 Data Accuracy

6.1 The Fund is working to meet the requirements set out in The Pensions Regulator's (TPR) Code of Practice 14, by undertaking a compliance review. The results of the Regulator's 2016 governance and administration survey of public service pension schemes highlighted that TPR expect all schemes to undertake an annual data review and put an improvement plan in place (if required). TPR will consider enforcement action where scheme managers fail

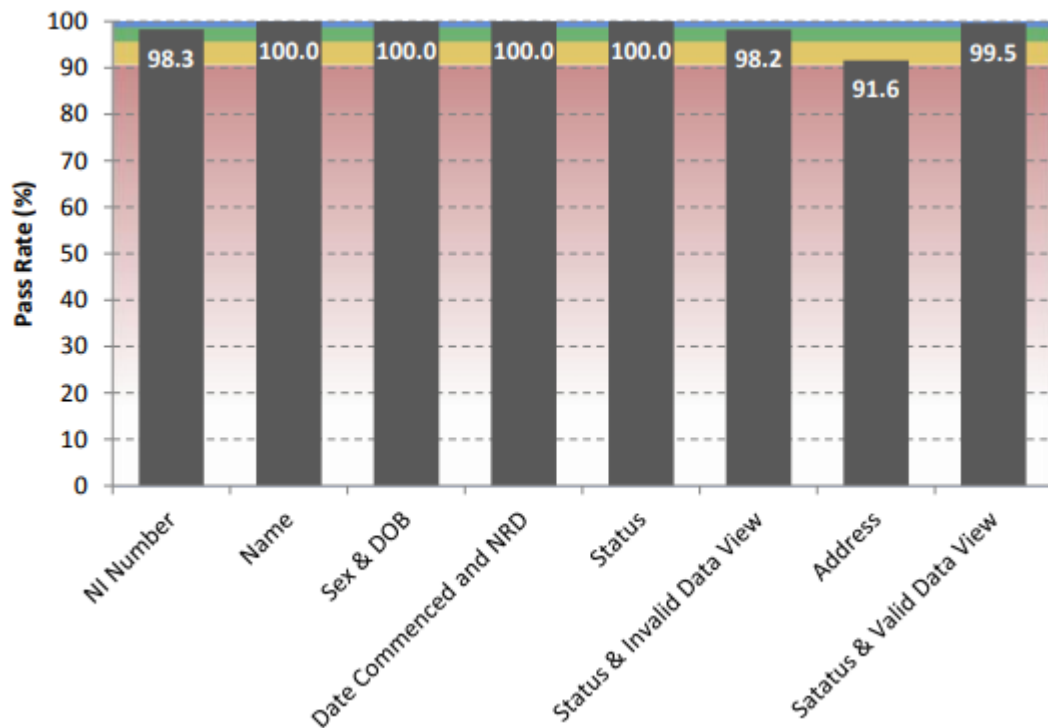
to demonstrate that they are taking appropriate steps to improve their records where gaps had been identified.

- 6.2 To meet the requirements set out by the regulator the Fund has joined with the Fund's Administrator Software Provider to complete a Data Quality Review. The exercise has provided a detailed report on the quality of the Funds data and benchmarked against TPR common and conditional data guidelines. It has also provided a suggested high level correction plan.
- 6.3 The review is now completed and the Fund has been provided with the results. As part of the exercise, two data review reports were run; a common data report and a conditional data report. The specific targets set for data deemed as 'common' are set by the Pensions Regulator. The Pensions Regulator also outlines the targets for the 'conditional' data but does not set prescriptive targets as the data is deemed to be scheme-specific. The Summary of both conditional and common data reviews can be found below.

Summary of Conditional Data Results. The graph below shows the Fund's performance against each data category looked at as part of the conditional data review. The results presented are generated from data extracted from the Fund records in November 2017.



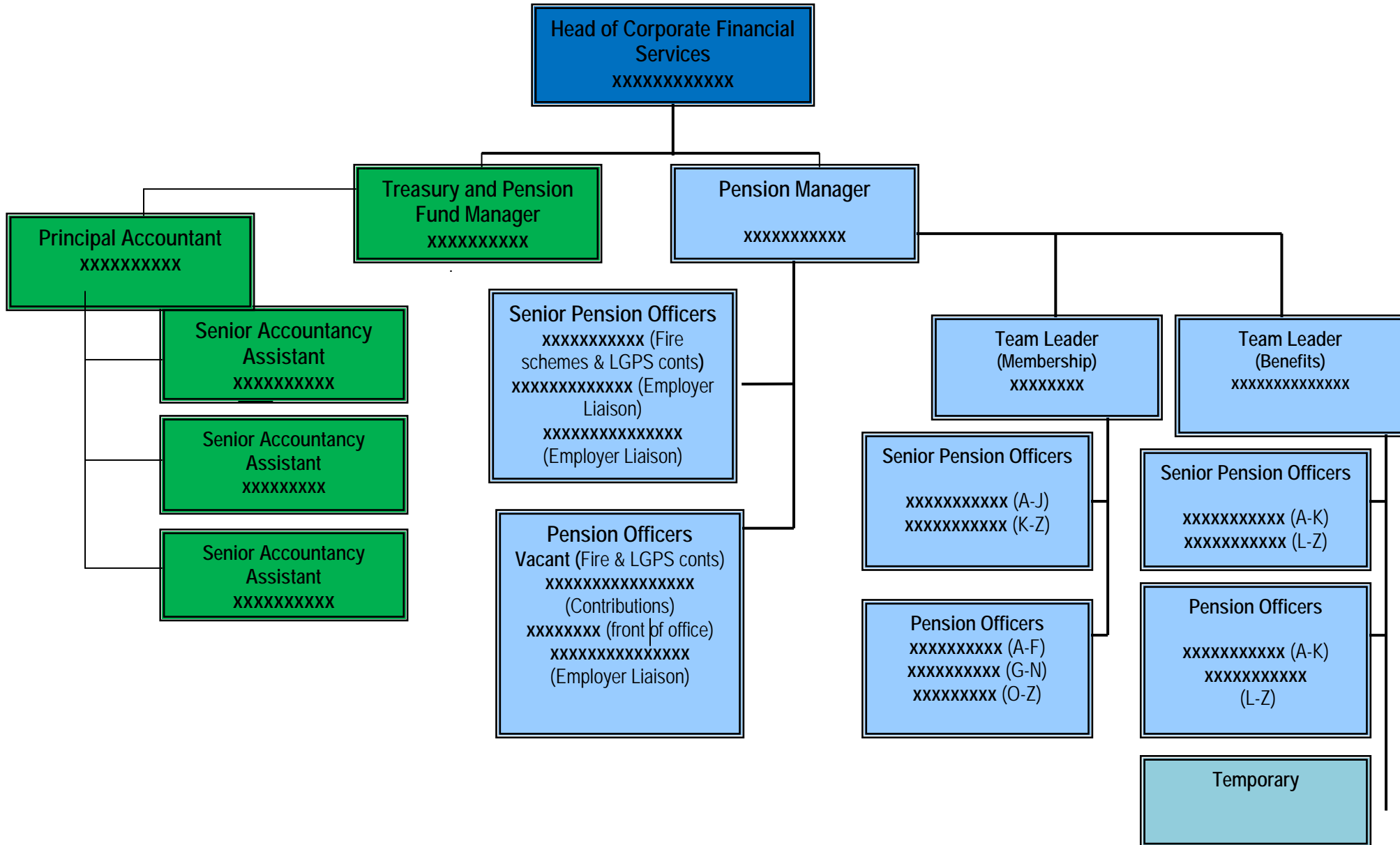
Summary of Common Data Results. The graph below shows the Fund’s performance against each data category looked at as part of the common data review. The results presented are generated from data extracted from the Fund records in November 2017. TPR have set targets of 100% accuracy for data created after June 2010 and 95% accuracy for data created before this date. The review the Fund undertook measured data as a whole as updates for many members are continuous and alter the last updated date on the system.



The results from both the common and conditional data reviews are currently being analysed and a data improvement plan will be put in place which will be reported to members at a future Board meeting.

	Name	Contact Information
Report Author	Neil Buxton	neilbuxton@warwickshire.gov.uk
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Portfolio Holder		

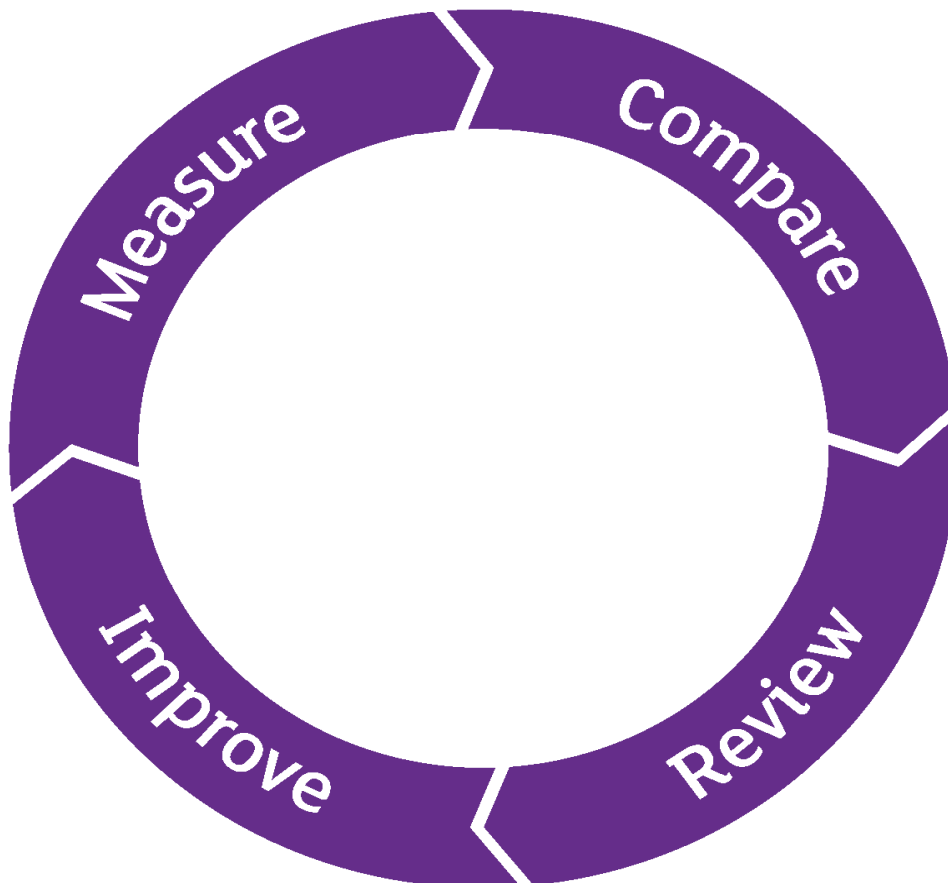
RESOURCES DIRECTORATE
FINANCE
Treasury & Pensions



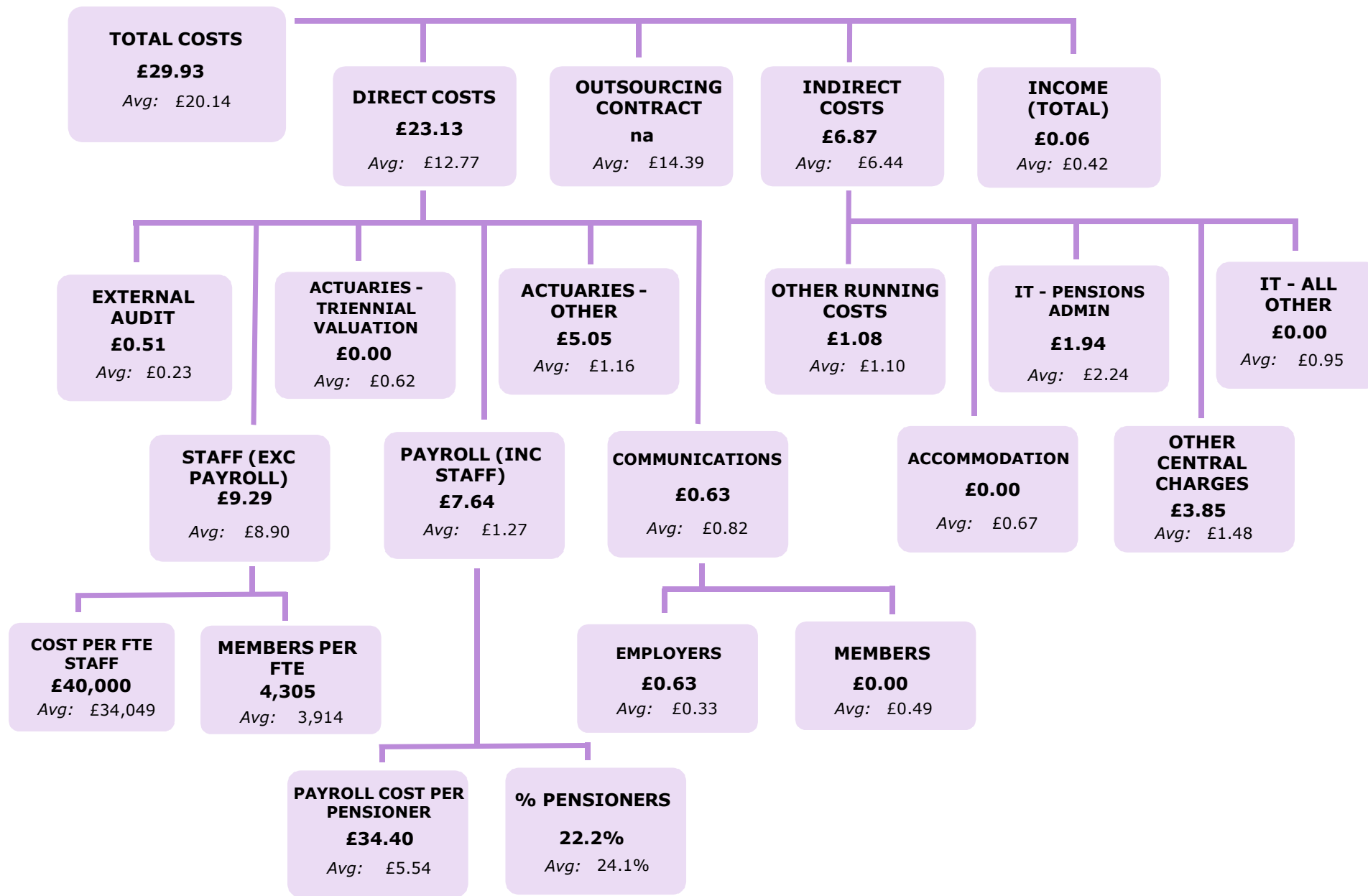
Analytics & Research

pensions administration benchmarking club

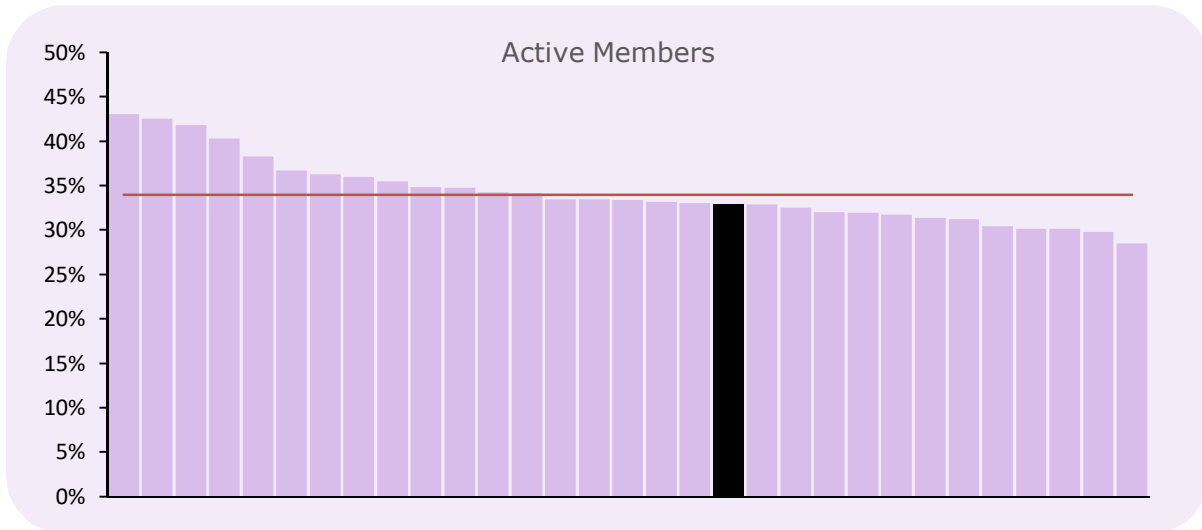
2017 - Warwickshire Executive Summary



Cost Analysis per Member

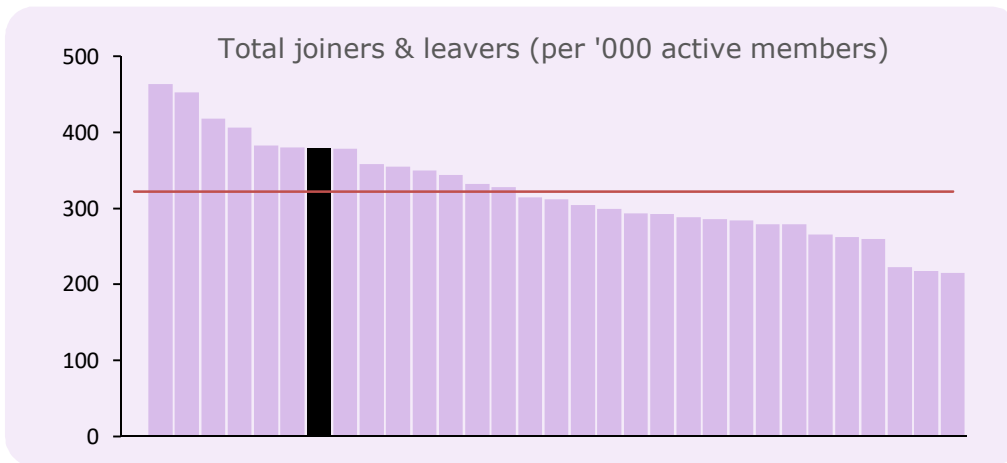


WORKLOAD MEASURES

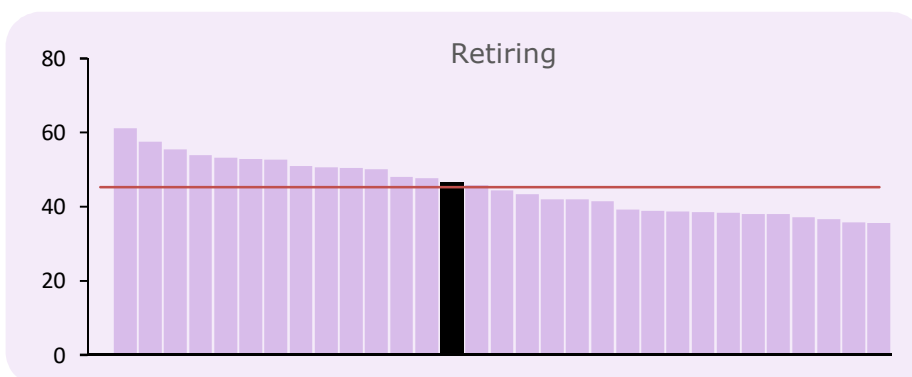


Composition of members at 31/03/2017	Number	%	Avg No.	Avg %
<u>Active:</u>				
Full-time	5,569	11.3%	20,294	14.3%
Part-time	10,578	21.6%	21,131	19.6%
No. of Elected Members	17	0.0%	22	0.0%
Active sub-total	16,164	32.9%	40,126	34.0%
<u>Deferred:</u>				
Staff	17,011	34.7%	35,851	31.7%
Elected Members	38	0.1%	40	0.0%
Pensioners	10,902	22.2%	28,488	24.1%
Dependants	1,577	3.2%	4,565	3.9%
Frozen refunds	2,502	5.1%	3,910	3.4%
Leavers unprocessed/in progress	884	1.8%	3,318	3.1%
Total	49,078		116,296	

WORKLOAD MEASURES



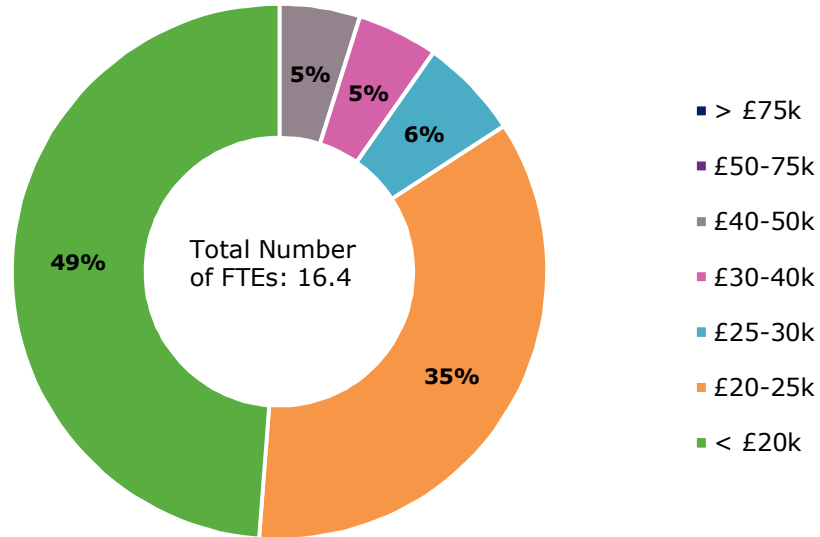
Joiners & Leavers	Number	'000	Average
Joining	3,208	198	180
Retiring	752	47	45
Deaths	289	18	25
Transferred out	136	8	6
Deferred	1,059	66	53
Opted out	669	41	19
Total	6,113	378	322



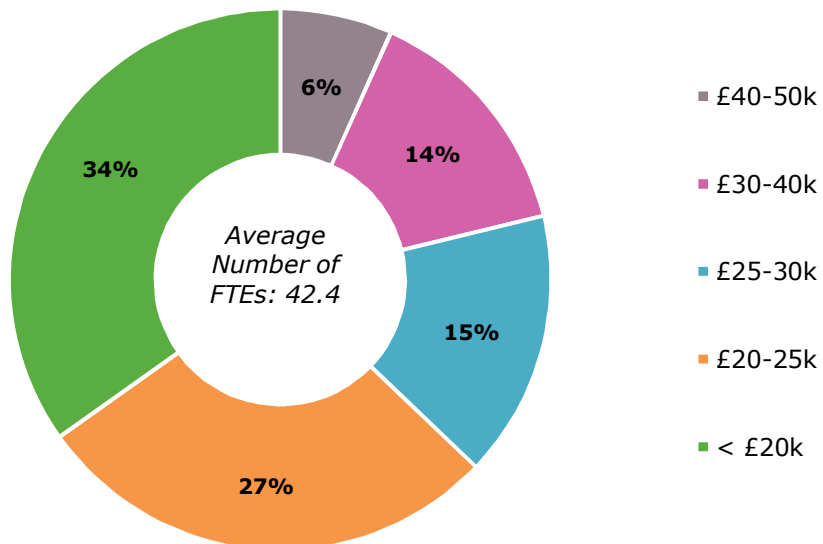
Retirements	Number	'000	Average
Incapacity	33	4%	4%
NRD	38	5%	20%
Pre-NRD	452	60%	45%
Post-NRD	97	13%	13%
Redundancy / efficiency	84	11%	15%
Flexible	48	6%	3%
Total	752		

STAFFING AND PROFESSIONAL EXPERIENCE

Warwickshire FTEs



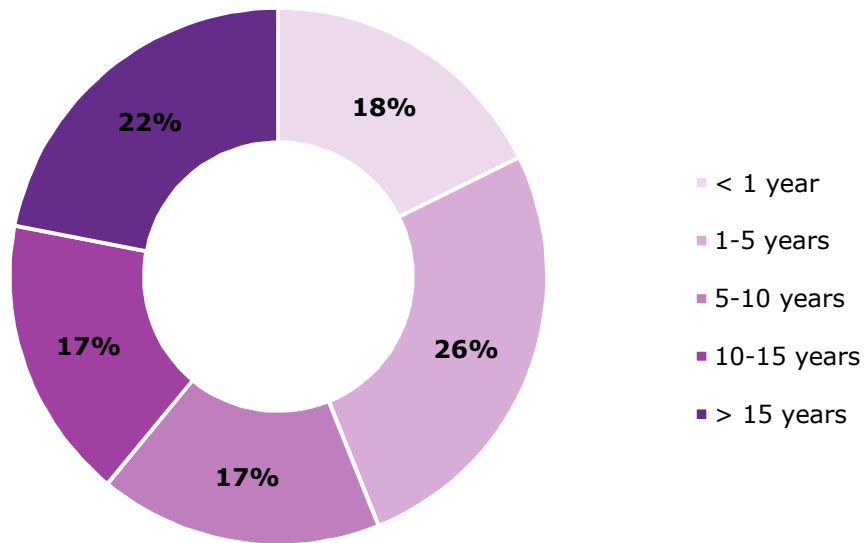
Average FTEs



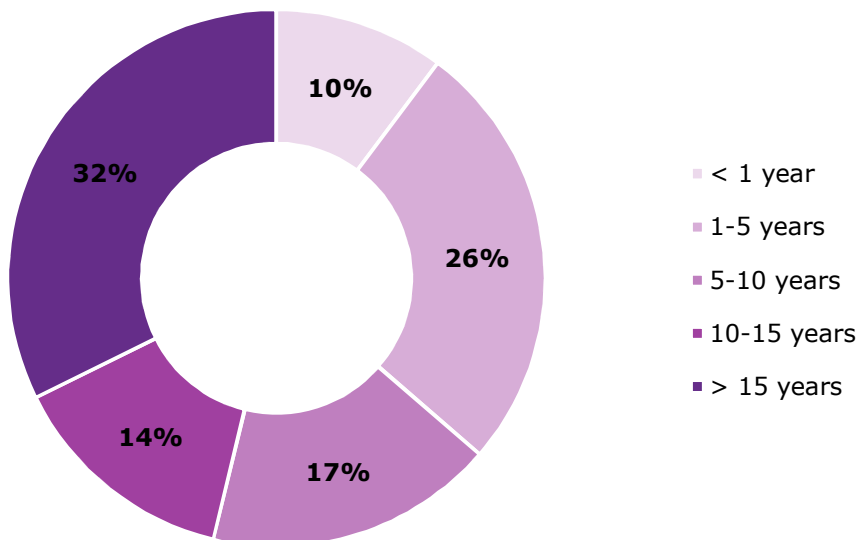
For local authorities with percentages less than 3%, these will not be shown on the graphs above.

STAFFING AND PROFESSIONAL EXPERIENCE

Warwickshire Pensions Experience



Pensions Average Experience



For local authorities with percentages less than 3%, these will not be shown on the graphs above.

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**Minutes of the Pension Fund Investment Sub-Committee
meeting held on 18 December 2017**

Present:**Members**

Councillors John Horner, Corinne Davies (replacing Alan Webb for this meeting), Bill Gifford (Vice Chair), Wallace Redford and Bob Stevens (Chair)

Officers

John Betts – Head of Finance
Mathew Dawson - Treasury and Pension Fund Manager
Aneeta Dhoot – Senior Finance Officer
Chris Norton – Strategic Finance Manager
Jane Pollard – Legal Services Manager
Sukhdev Singh – Senior Finance Officer
Paul Williams - Democratic Services Team Leader

Invitees

Rachel Elwell – Border to Coast Pensions Partnership
Emma Garrett – Hymans Robertson
Peter Jones – Independent Investment Adviser
Paul Potter – Hymans Robertson
Karen Shackleton – Independent Investment Adviser
Richard Warden – Hymans Robertson

Observers

None

No members of the public attended.

1. General**(1) Apologies for absence**

Councillor Alan Webb (Replaced for this meeting by Councillor Corinne Davies)

(2) Members Disclosures of Pecuniary and Non-Pecuniary Interests

None

(3) Minutes of the previous meeting held on 11 September 2017

The minutes of the meeting held on 11 September 2017 were agreed as true and correct records and were signed by the Chair.

2. Investment Performance

Mathew Dawson (Treasury and Pension Fund Manager) introduced the report stating that following another successful quarter the pension fund value stood at £2,039.4m at 30 September 2017, this being an increase of 1.32% on the previous 3 months. Referencing table 1 it was explained that a certain amount of rebalancing

has been undertaken, that the allocation to government bonds has now been sold and that there has been a change in the allocation of equity. A certain cash weighting will need to continue to be held. This will be drawn down throughout the life of the fund. Members sought assurance that 1.5% cash was reasonable. This was given by Paul Potter (Hymans Robertson) who stated that there should be no concern for cash assets up to 2%. The Sub-Committee was informed of the impending withdrawal of a major employer from the fund. This will result in the loss of £15m as a cash withdrawal from the fund. Assurance was provided that whilst not an insignificant development it should have no direct impact on the fund.

Regarding table 2 (page 3 of 6) it was noted that JP Morgan underweight as income is distributed back to the fund not re-invested. However the Sub-Committee learned that this has been topped up with the sale of gilts and will be increased temporarily with the sale hedge funds due as cash post February 2018.

Fund Manager performance was explored by members. That of MFS and Threadneedle was noted to be markedly below that of others. However figure 4 showed that both these managers had performed well since 2014. Members were informed that quarterly figures can be misleading. Performance should be monitored over a two year period at least. Schroders Property and Threadneedle Property were acknowledged as having performed well, outperforming expectations. Members were informed that having the right active managers can be the key to success.

Mathew Dawson observed that the benchmarking performance placed before the committee did not contain all the information collected. Analytics are commissioned by the fund as part of a debate on whether to use active or passive managers. Detailed data was considered necessary as it is not enough to simply know if the agreed benchmark is being met. It was considered more important to know whether fund managers were skilful in buying and selling stocks. There is a considerable amount of data provided to the fund by Analytics. This can be made available to the Sub-Committee should it so wish.

Peter Jones (Independent Investment Adviser) requested that the Sub-Committee bear in mind the very good performance of the fund in recent years.

Resolved

That the Pension Fund Investment Sub-Committee notes the fund value and investment performance for the first quarter of 2017/18 to 30 September 2017.

3. Appointment of Private Debt Manager

Councillor Bob Stevens (Chair of the Pension Fund Investment Sub-Committee) introduced this item explaining that interviews had been held on 1 December 2017 for the role. Members were reminded that whilst the interviews had resulted in two appointments it was still necessary for the Sub-Committee to ratify that decision. Mathew Dawson stated that the decision had been taken to assign Alcentra and Partners Group £50m each adding that MJ Hudson had been appointed to ensure legal and operational due diligence.

Resolved

That the Pension Fund Investment Sub-Committee ratifies the appointment of Alcentra and Partners Group as Private Debt Managers.

4. Pooling Verbal Update

The Chair welcomed Rachel Elwell (CEO of BCPP) to the meeting. Having introduced herself and shared her credentials Rachel proceeded to update the Sub-Committee on progress with the setting up of BCPP. The mission statement of the BCPP was noted this being “making a difference to investment outcomes for Local Government Pension Funds through pooling to create a stronger voice; working in partnership to deliver cost effective and innovative responsible investment now and into the future; thereby enabling great, sustainable performance”. That BCPP is now moving from a transition position to an operational one as a permanent company was noted. Recruitment is underway with a view to becoming operational out of an office in Leeds in 2018.

Phase one of operations will focus on asset management with the first transfers of assets happening in summer 2018. These transfers will need careful planning and an efficient process to ensure they are all undertaken smoothly. Given that it will take two to three years to become fully established it is likely that the arena in which BCPP is working will change. For this reason it will be necessary to be agile and strive to remain ahead of those changes.

The success of BCPP will be measured partly in terms of the cost savings it delivers to its 12 partner funds.

BCPP will need to pay due regard to responsible investment and governance. It will also need to ensure its resilience through the appointment of the right people.

Councillor Bill Gifford questioned whether the drive to cut fees and make savings and pressure to invest in infrastructure would undermine the independence of individual partner funds in the pool. In response the meeting was informed that liabilities will remain with the fund. Success is achieved 80% through strategic asset allocation and 20% through tactical measures eg manager selection. Ultimately the Sub-Committee will retain responsibility for strategic planning. In terms of investment in infrastructure, the Sub-Committee was informed that this can be better than some might suppose. At a general level it works well as an asset class. It provides global investment opportunities although as lead-in times are lengthy and it carries very specific risks infrastructure investment requires careful and long term consideration.

Transition to BCPP will be tightly controlled with a number of stop/go decisions required over the next few months. The Board will need to be comfortable with progress as will the Regulator. Those assets that transfer in June 2018 will mark the first testing point. With £47bn in assets BCPP should achieve a strong voice.

Members asked whether the establishment of BCPP will result in an increase in staffing. It was explained that there will be 70 staff employed by BCPP. Those funds that currently have internally managed teams will TUPE them over. Internal fund management will increase over time. This will result in a reduction in fees being paid to external fund managers. For example if the equity fund is managed internally it

will no longer be necessary to pay fees to HarbourVest. Members were also informed that as BCPP is not a large profit-based commercial concern it will not have the major overheads that the major fund managers have. This will result in further savings.

The various pools across the country are currently cooperating. However it may be that as they become established that level of cooperation will decline.

Leeds is considered to be a good location for the BCPP headquarters. The city has a strong financial industry and to date its location away from London does not appear to have deterred good quality people from wishing to work there. However, it may be that when filling investment roles the location might provide a challenge.

Karen Shackleton (Independent Investment Adviser) observed that that cost savings are to be made via procurement. For example the process used for the appointment of the Private Debt Manager. Karen requested that she and her fellow independent advisers be kept firmly in the loop when correspondence is being sent out and decisions made. This was duly noted.

It was explained that the production of a prospectus is required as part of the Authorised Contractual Scheme. This in turn will need to be approved by the Financial Conduct Authority.

In terms of reporting of performance it was acknowledged that whilst a common approach across the 12 partner pools would be desirable, some variation is inevitable. The key around monitoring and reporting is to get the accounting right. Warwickshire is not as data-heavy as some pension funds plus it also has a custodian platform of which BCPP will be a part. As BCPP will manage assets externally it will be necessary to have strong data management. In addition transaction costs will need to be closely and accurately monitored.

Training for Sub-Committee members was regarded as very important. Members agreed that this should be given further attention.

Resolved

That the Pension Fund Investment Sub-Committee notes progress to date with the Border to Coast Pension Partnership

5. MIFID II Verbal Update

Mathew Dawson informed members that on Wednesday 13 December the County Council had learned that it was now classified as a professional investor under MIFID II by each of its fund managers. One exception was JP Morgan who have decided that the pension fund is protected under the rules applied by the "Undertakings for the Collective Investment of Transferable Securities" (UCITS).

It is expected that over the next few months many more managers will request the fund to opt-up in order that prospective managers can continue to engage with officers.

One area identified for development is training. The fund has been advised that it needs to maintain a more formal training record and that it should have regular training on a quarterly basis. Members acknowledged that MIFID II had encouraged pension funds to reflect on and improve their practices.

Resolved

That the Pension Fund Investment Sub-Committee notes the latest position regarding MIFID II.

6. Results from Training Survey

Karen Shackleton briefed the Sub-Committee on the results of the recent training survey. Seven questions had been asked. The results can be summarised as follows.

1. Pensions legislative and governance context

Members demonstrated a clear knowledge base with a good understanding of MIFID II. A lower score was achieved for LGPS Regulations and Legislative Framework.

2. Pensions accounting and auditing standards

A good working knowledge was demonstrated although that around accounts and audit regulations was weaker.

3. Financial services procurement and relationship management

Scores were high in this area.

4. Investment performance

Results suggest that post pooling engagement and monitoring may require more support.

5. Risk management

More training is required in this area especially around what influences risks and what can be done to mitigate against it.

6. Financial markets and products knowledge

Scores were high in this area.

7. Preferred training method

Members expressed a desire to attend more training days, undertake internal training and to have training before meetings. Online training scored low.

Regarding training Mathew Dawson suggested that short sessions prior to the commencement of meetings may not be sufficient to meet members' requirements or those of MIFID. It was agreed that the matter be discussed in greater depth at the Sub-Committee's March 2018 meeting.

Resolved

- 1) That the Pension Fund Investment Sub-Committee notes the results of the survey.
- 2) That the agenda for the March 2018 meeting of the Pension Fund Investment Sub Committee include an item on training.

7. Investment Guiding Principles

During the introduction to this item it was emphasised that the guiding principles (that resulted from the MIFID II exercise) are not mandatory or definitive but serve to assist in decision making. Mathew Dawson observed that principles 1 -4 are the most significant. Of the remaining guiding principles it was noted that with reference to number 9, had a \$ based manager been appointed as Private Debt Manager it would have been necessary to consider currency hedging. With regards principle 13, quarterly performance reports cover too short a period. A more accurate indication of performance will be obtained over a 3 to 5 year period. Finally with regards principle 15, whilst it is recognised that BCPP will be investing in line with the agreed strategy further advice will be required especially regarding strategic asset allocation.

Councillor Bill Gifford, referred to paragraph 1.2 of agenda item 8 which states, "BCPP will engage with companies on environmental, social and governance issues and exercise its voting rights at company meetings". Members agreed that this should form the basis of a further guiding principle concerning responsible investment.

Regarding currency risk members were informed that equity managers do not manage this. Rather they have to accept that there is volatility in this area.

The Sub-Committee was informed that fund managers' contracts are not normally terminated owing to short term underperformance. They will, however be terminated if managers do not act on instructions and do what they are told.

Resolved

That the Pension Fund Investment Sub-Committee

1. approves the investment guiding principles for inclusion as an appendix in the fund's Investment Strategy Statement.
2. agrees that a further principle be included at number 16 stating, "BCPP will engage with companies on environmental. Social and governance issues and exercise its voting rights at company meetings".
3. agrees that the guiding principles be presented to the next meeting of the Sub-Committee along with any amendments/additions.

8. Responsible Investment and Share Voting

Following a brief introduction by the Chair the Sub Committee was informed that a voting policy is required as the pension fund has a say in how companies operate. A manifest voting system is used whereby suggestions are supplied to the fund on

which way it might choose to vote. This system has the advantage in that votes are recorded and accounted for.

The fund has a choice. It can redesign the Warwickshire Voting Policy to harmonise with BCPP or it can develop its own policies independently. Officers' advice was to align with BCPP.

The meeting was informed that the Warwickshire fund does not have its own Responsible Investment (RI) policy. Any issues around RI form part of the Investment Strategy Statement and Governance Statement. The advantage of aligning with BCPP is that the fund can benefit from its policy.

It was noted that passive managers have a different approach to responsible investment to active managers.

It was agreed that Responsible Investment needs to be good investment that brings a good return.

Resolved

That the Pension Fund Investment Sub Committee approves,

1. The BCPP Corporate Governance Voting Guidelines
2. The BCPP Responsible Investor (RI) Policy
3. The redrafting of the fund's voting policy to align with BCPP for presentation to the June 2018 meeting of the Sub Committee.

9. Any other items

None

10. Reports Containing Confidential or Exempt Information

Resolved:

'That members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972'.

11. Exempt Minutes of the Meeting held on 11 September 2017

The exempt minutes were agreed as a true and accurate record for signing by the Chair.

12. Investment Review

Paul Potter updated the Sub Committee on a number of issues that were raised at its 12 June 2017 meeting. Details of this update are set out in the exempt minute.

The meeting rose at 11.50am

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Chair