
PENSION BOARD, 12.04.18

Present: Anthony Deakin (Cartrefi Conwy), Councillor Aled Evans (Gwynedd Council), H. Eifion Jones (Scheme Members' Representative), Osian Richards (Scheme Members' Representative), Huw Trainor (North Wales Police) and Sharon Warnes (Scheme Members' Representative)

Others invited: Councillor Stephen Churchman (Chair of the Pensions Committee).

Officers: Dafydd Edwards (Head of Finance Department), Nicholas Hopkins (Pensions Manager), Caroline Roberts (Investment Manager) and Lowri Haf Evans (Member Support Officer).

1. APOLOGIES

None to note

1. DECLARATION OF PERSONAL INTEREST

No declarations of personal interest were received from any members present.

2. URGENT ITEMS

None to note

3. MINUTES OF THE PREVIOUS MEETING

The Chair signed the minutes of the meeting of this committee, held on 15 February 2017, as a true record.

Indemnity Insurance

It was highlighted that the matter had been discussed again at the CIPFA Seminar, but that no definitive answers had been forthcoming. It was suggested that enquiries should be made with Zurich (who had responsibility for this matter) once again, and press on the speakers at the CIPFA Seminar to prepare a statement that would provide clarity on the concerns, and justify what they had been reporting at seminars.

4. PENSIONS COMMITTEE MINUTES

Received, for information, the minutes of the Pensions Committee held on 15 March 2018.

5. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2018/2019

Submitted - the report of the Investment Manager explaining the treasury management arrangements for investing the residual cash-flow of the Pension Fund. It was noted that the Pensions Committee had adopted Gwynedd Council's Treasury Management Strategy Statement (TMSS) on 15 March, following the full

Council's decision to adopt the statement on 8 March. It was highlighted that no fundamental changes had been made to the historical procedure.

It was reiterated that the TMSS was relevant to the residual cash-flow of the Pension Fund, which was combined with the Council's money for cash-flow management purposes. Daily interest was received and this was clearly recorded and distributed appropriately. It was reported that the Pensions Committee reviewed this arrangement annually and the recommendation to continue with the arrangement for 2018/19 was approved.

In response to a question, it was highlighted that cash balances were pooled for investment purposes only, as economies of scale meant that the returns received were better and the administrative cost was shared and therefore less. It was emphasised that there was no link here with the pooling of Welsh Funds. The observation that the terminology was similar, and the fact that the information could be misinterpreted if the entire document was not read, was accepted.

In response to a question, it was confirmed that Arlingclose had been appointed as Treasury Management consultants. It was noted that the Authority had had a good relationship with Arlingclose since 2008, that they provided clear guidance and that the Audit and Governance Committee had recently expressed its gratitude to them for presenting training in a clear and effective way.

Attention was drawn to the need to correct the reference to the "Housing and Communities Agency" under "5.11 - Registered Providers", as Welsh Government undertook the equivalent regulatory role in Wales.

Resolved to accept the information.

6. PENSION FUND INVESTMENT PERFORMANCE 2017/2018

Submitted - the report of the Investment Manager highlighting how the performance of the pension fund's investments was monitored on a quarterly basis. It was explained that the investment performance of the individual investment manager companies was being monitored by the Pensions Committee, which met as an Investment Panel every quarter. It was highlighted that exceeding the benchmark over time was the custom, rather than comparing each individual quarter.

In response to a question regarding the ability to identify poorly performing investment manager companies, it was explained that the main task of the Pensions Committee, except for allocating assets, was make decisions on suitable investment manager companies, and at investment meetings, they would receive detailed reports on the individual companies. Should an investment manager perform badly on a regular basis, the matter would be discussed thoroughly. The Chair of the Pensions Committee reiterated that detailed, but commercially sensitive reports, were being provided for the Investment Panel and that there was an opportunity for Committee members to measure and challenge decisions and performance.

To ensure arrangements for good compliance, it was agreed that officers would report to the Board should an investment manager company perform badly on a regular basis.

A suggestion was made that Board members should observe one meeting with the Investment Panel to ensure that the process was comprehensible, accurate and

that it worked effectively. It was emphasised that this was a request to seek an understanding of the process and not a suggestion to challenge performance.

In response to the suggestion, it was noted, due to being on the verge of joint-investing as the Welsh Pension Partnership, the procedure was likely to change in the coming six months and it was agreed that it would be logical to identify what the reporting procedure would be in future before implementing the suggestion.

In response to a question from Unison, *'Can your Pensions Committee provide details of the asset managers they use, that have been unable to register with the LGPS Code of Transparency?'*, it was highlighted that the Consultative Board had a template code of transparency prepared for equity investments, but not for investments in other asset classes, such as property. It was highlighted that companies such as BlackRock, Fidelity and Veritas had signed up in the context of equity mandates, but property investment manager companies were still waiting for a suitable template from the Consultative Board.

In response to another question from Unison, *'What measures have been taken by the Pensions Committee to increase the transparency of their investment costs, in particular measures taken to measure implicit costs – and I quote the West Midlands example'*, the Head of Finance Department noted that they had already made enquiries with the West Midlands about implicit cost matters. It was expressed that officers were not of the opinion that Gwynedd Pension Fund had implicit costs, and that all of Gwynedd's fees were reported in full.

In an observation made that the turnover rate of Investment Managers appeared high, it was expressed that the turnover rate was very low in Gwynedd. The Board was reassured that the investment managers would not be changed without a decision being made by the Pensions Committee.

The information was accepted.

7. THE REPORT FOR THE ANNUAL REPORT OF THE PENSION FUND 2017/18

Members were reminded that the Pension Fund's Annual Report included a report from the Chair of the Pension Board. The Board was asked to consider the content of the 2017/18 report and make observations. It was highlighted that the 2016/17 report had been included as an example.

It was suggested that a more dynamic document that addressed those elements where the Board had made a contribution, e.g. moral investments and communication, was needed. It was highlighted that the Board had completed two questionnaires and it was possible that fields that required more attention had been highlighted in the questionnaires. It was expressed that what had been achieved and the future vision/focus, needed to be highlighted.

It was suggested that the Board's contribution in scrutinising the Committee's work in the context of the Welsh Pensions Partnership; a meeting with Link and Russell; and its guidance to work on responsible investment, were worth noting in the report.

It was noted that the report would need to be completed by September 2018 and officers were asked to prepare the first draft on the Chairman's behalf.

8. RESPONSIBLE INVESTMENT AND GOVERNANCE

Following a training session held jointly with Board members on 18.1.2018, it was reported that Paul Potter from Hymans had prepared a report that outlined the agreed investment principles of Gwynedd members and officers based on responses to the questionnaire completed for the session. It was noted that this report, 'Agree Responsible Investment Principles' had been discussed at the Investment Panel held on 28 February, and the Panel's main considerations were presented to the Pensions Committee on 15.3.18 to approve the principles. Board members were asked to consider the principles so that they could be included in the Investment Strategy Statement. It was highlighted that paragraph 2.2 was additional to what Hymans had offered.

Principle 2.2:

'The Fund's Committee will seek to invest in sustainable assets, including investing within the Wales area when non-financial investments can derive from this, on condition that they satisfy the requirements of the fiduciary duty.'

The officers were thanked for the information, for arranging the seminar and arranging for Hymans to present and collaborate with the members of the Pensions Committee and Pension Board collectively. It was reiterated that the process was professional and transparent.

One member highlighted concern that the Pensions Committee had added the above principle. It was noted that moral investment was now a hot topic and tended to be a political issue. He expressed that the Board's task was ensuring that political considerations did not become a part of the Pension Fund's investment discussions. It was accepted that the main priority was getting the best returns, however, he expressed that the views of all contributing fund employers had to be considered, in accordance with the statutory guidance of the Department for Communities and Local Government (DCLG), which notes that administrative Authorities should:

'... explain the extent to which the views of local pension boards and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors...'

One member suggested that this amendment should be highlighted and for all employers to be informed should there be an intention to invest in Welsh initiatives, and that employers should be consulted in that respect.

In response to the observation, it was noted that Hymans could see the advantages of the addition and it was noted that the Fund's members would be asked for their views regarding the addition of 'Principle 2.2'. It was reiterated that feedback had been obtained noting that there was a local desire to see local investment. It was emphasised that the Committee's trustee duties would have to be met, along with adding value beyond good returns before any investment was made.

Another member expressed that she agreed with all the principles and encouraged the Partnership's other funds to make a similar comment. She highlighted that the success of the Partnership's bid was Wales as one package. It was reiterated that these were only statements and that further discussions would be needed and robust processes put in place before they were implemented. It was noted that the next steps would be key.

It was reiterated that there was a need to acknowledge that Gwynedd was 'leading the way' here, but that it was also treading carefully. There was a need to strike a balance between being equal and responsible.

The Chair of the Pensions Committee expressed that the Gwynedd Fund was proactive, was developing and was facing new challenges in a positive way. He emphasised that purposeful advice had been received from Hymans regarding the principles, that Hymans had been a part of the decision and that the outcome depended on how the situation developed.

The Head of Finance Department noted that he sought the consensus of the Committee and the Board to accept the principles, before entering into further discussions with other Welsh funds. Reaching an agreement on clear principles would place Gwynedd in a strong situation. The principles would be included in the Investment Strategy Statement and there would be a request for Investment Managers to consider them when investing. Should there be any change in direction, the Pensions Committee would discuss the matter and the Board would have an opportunity to respond.

The principles were accepted, however, it was suggested that a broader discussion was needed on how the process would be implemented by considering the statutory guidance of the Communities and Local Government Department (DCLG).

9. RISK REGISTER UPDATE

The Pension Fund's risk register for 2018 was submitted. It was highlighted that the register was an active document and that it was reviewed regularly.

The following observations and additions were suggested:

- including 'cyber safety' – it was suggested that the Council's general risk register should be used
- add the word 'Committee' to the risk of conflict of interests (page 50)
- Wales Investment Pool (page 57) - need to review the wording of the risk as a result of recent developments. It was agreed that the score would be reported upon at the next meeting.
- A suggestion to set a date and document version management
- A suggestion of introducing a penalty system as a mitigation measure in order to ensure timely data

It was expressed that the register was a very useful document and that detailed and good work had been done to score the risks.

10. COMMUNICATING WITH EMPLOYERS - TIMELY AND ACCURATE DATA

A report was submitted by the Senior Communication Officer, outlining the process of completing and submitting the 'End of Year' spreadsheet that included basic information about employees, contributions paid, the member's pensionable salary for benefits pre-2014, and the member's actual salary for the 2017/18 tax year. To comply with relevant regulations, every employer within the Fund had to submit comprehensive and accurate data, in relation to every one of their pensionable employees by 30.4.18.

Reference was made to the work of the Pensions Regulator, and to the expectation that the employer sent details every month, rather than annually. It was reiterated that presenting up-to-date monthly data would allow for any problems to be resolved immediately, rather than waiting until the end of the year.

Reference was made to the *i-connect* system and the work being done to encourage, advise and support employers to install and use the system. It was

noted that the system reduced the cost and the risk associated with pension data processing as the information was taken directly from the payroll.

In response to an observation regarding receiving late and incomplete data, the need to identify steps that highlighted the problem was needed, along with having arrangements in place to ensure that performance was improved. It was suggested that there was a need to consider escalating any difficulties by communicating with senior officers should the matter remain unresolved, reiterating that any delay came at a cost to the Fund. It was reiterated, in the case of Anglesey Council, that there was a need to ensure that they complied with the above requirements, as a lack of compliance had an impact on other Fund members.

In response to the observations, it was highlighted that consideration had been given to seek permission for the Chief Officer, on behalf of the employer, to sign a letter confirming that the data was accurate. It was added that the Regulator had the right to punish should data be incorrect and late. Should Gwynedd report to the Regulator and the employer was penalised, consideration would need to be given to the Fund's reputation, and the political issues that could arise.

Gratitude was expressed for the information.

11. FEEDBACK FROM THE CIPFA SEMINAR

A report was received from the Senior Communication Officer, providing a summary of the items discussed at the Seminar held on 26.2.18. He added that CIPFA recommended including "GMP" as a standing item for Pension Boards, however, the Gwynedd Fund was in a much better position than other funds in the context of "GMP".

Gratitude was expressed for the comprehensive information.

It was highlighted that the CIPFA Pension Board Conference was to be held in London on 27.6.18. A request was made for Members to contact the Chairman of the Board if there was a desire to attend on behalf of the Gwynedd Fund.

The meeting commenced at 2pm and concluded at 4.35pm.