Agenda

For enquiries on this agenda, please contact:
Ann Sweeney
0208 547 4629 ann.sweeney@kingston.gov.uk

Published on 13 March 2019

THE ROYAL BOROUGH OF KINGSTON UPON THAMES

Pension Board

Date:	Thursday 21 March 2019
Time:	10:00 am
Place:	Guildhall, Kingston upon Thames

Members of the Board

Employer Representatives		Scheme Member Representatives	
Deborah Castanheira Coombe Secondary Schools Academy Trust		Tony Willis	
Robert Ewing	Kingston University - **Chair**	James Geach	Kingston Unison

Everyone is welcome to attend the meeting

This agenda is available to view on: www.kingston.gov.uk
You can also access this agenda through the Modern.gov app or by scanning the QR code with your smartphone.

Meeting information

Accessibility

- All meetings have access for people who may have mobility difficulties. If there are stairs, a lift or stairlift is available. Disabled parking spaces are available on site.
- Toilet facilities will be easily accessible from the meeting room.
- For people who are deaf or have hearing impairments, there is an induction loop (depending on the building, this may only be available in the first 2 or 3 rows).
- **A large print copy of the agenda can be requested in advance.**

Emergency evacuation arrangements

If the fire alarm sounds, please leave the building by the nearest exit. If you require assistance, please remain seated and an Officer will assist you from the building.

Recording of the meeting

This meeting will be recorded and the recording will be available on the web site (www.kingston.gov.uk) with the agenda and minutes.

Filming

Residents and journalists/media wishing to film meetings are permitted to do so but are asked to give advance notice of this and respect any concerns expressed by people on being filmed.

Minutes

The minutes briefly summarise the item and record the decision. They do not record who said what during the debate.

AGENDA

Apologies for absence

Declarations of interest

1. Minutes **Appendix A**

To confirm as a correct record the minutes of the meeting held on 6 November 2018.

2. Review of the Work of the Pension Fund Panel **Appendix B**

The Pension Fund Panel agendas for the meetings of 13 December 2108 and 12 February 2019 were circulated to Board members and are available via the following links PFP 131218. PFP 1210219

For ease of reference in reviewing these a summary of the following items, incorporating comments from the Pension Fund Panel meetings is attached, together with a separate pack containing the reports and slides .

13 December

GAD Section 13 report
Fund Risk Register

12 February

Pensions Administration update
Fund Performance – December quarter
Investment Strategy Review – Multi Asset Credit
Investment Benchmarking 2017-18
ESG Investments – Next Steps
Local Authority Pension Fund Forum
LGPS Governance Conference

3. Member Training - Triennial Valuation

Hymans Robertson will be attending

4. Work Programme 2019-20 **Appendix C**

5. Urgent Items Authorised by the Chair

6. Exclusion of the Press and Public - if required

The following resolution is included as a standard item which will only be relevant if any exempt matter is to be considered at the meeting for which the Committee wish to resolve to exclude the press and public:

To exclude the public from the meeting under Section 100(A)(4) of the Local Government Act 1972 on the grounds that it is likely that exempt information, as defined in paragraph x of Part I of Schedule 12A to the Act, would be disclosed and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

A1

ROYAL BOROUGH OF KINGSTON UPON THAMES

PENSION BOARD

6 NOVEMBER 2018

3:00 pm – 4:10 pm

Employer Representatives

Robert Ewing Chair
Kingston University
Debbie Castanheira
Coombe Secondary Schools Academy Trust

Scheme Member Representatives

* Tony Willis

James Geach Kingston Unison

*Absent and apologies

DECLARATIONS OF INTEREST

6. Minutes **Appendix A**

Resolved that the minutes of the meeting held on 20 June 2018 are confirmed as a correct record.
.

7. Review of the Work of the Pension Fund Panel **Appendix B**

A summary of the items, incorporating comments from the Pension Fund Panel meeting on 13 September 2018 was discussed

CIV presentation and slides
Fund performance to 30 June 2018
Investment Strategy update
Investment Benchmarking 2017-18
Pensions Administration update
Annual Report 2017-18 and Financial Statements
Training Plan
Work Programme and new arrangements for meeting managers

The following comments were made

Fund valuation at 30 June 2018 **-** the increase in the value of the fund of £37.7 million (4.6%) from the total value at the end of March 2018 was noted. Over the year June 17 – June 18 the Fund has increased from £801m to £855.7m. The Total Return Bond performance of -6.6% against target reflected market conditions. RBK Fund returns over 17/18 were 1% lower than the average LGPS fund returns but better over 3, 5 and 10 years. It was noted that review of manager performance is an element of the work associated with the Investment Strategy review. A query was raised on the availability of any data on CIV performance

Pensions Administration Update **–** on the detail of the current 2 complaints it was clarified that one relates to a pension transfer request, this cannot be met as the current Regulations do not give any discretion on accepting these if they are made outside the specified time limits. The other is on the recovery of an overpayment of pension. This is normally done by agreed arrangements but ultimately recovery could be achieved by suspending the pension for the appropriate time.
The outcome of the processing of the Annual Returns and production of Benefit Statements and the imposition of penalty charges on some employers, mainly in Sutton, for late/inaccurate data was noted.
The Chair commented on employees' appreciation of the online access to pensions information,

CIV – The governance changes and the training slides were noted. The CIV will be reporting to the Panel periodically in the same way as other fund managers and CIV products will also be included in the options being considered in the Investment Strategy review.

Annual Report 2017-18 and Financial Statements – noted

Training Plan – the aim is to have a shared plan for the Panel and the Board and to adjust the plan to meet any knowledge gaps.
The Chair commented that an understanding of the Fund assets and contributions; actuarial adjustments and how these can be clearly communicated to employers and the wider public is. Debbie added that some basic information on different types of investment and the pros and cons of each, together with a glossary of investment classes – eg MAC – and again the pros and cons of these would be helpful.

8. Pension Administration

The briefing note circulated on the proposed restructuring of the Pension Administration Team set out

The current issues -

increased number of employers now participating in the fund and the increase in those using differing payroll providers
greater complexity of scheme regulations,
increased requirements of HMRC,
increased governance responsibilities including greater scrutiny of data from the Pensions Regulator and Local Pension Boards.
a historical backlog of cases, brought about due to a lack of capacity, changes in software systems and changes in legislation

The proposals to
increase the team's capacity;
create a more resilient team structure;
maintain the service improvements implemented since the start of the shared service

ensure there is sufficient resource to deliver a high-quality service and encourage and enable staff career development

The costs of the proposal and the way in which this would be funded.

Comments and questions from the Board covered the provision being made for system improvements; the likelihood of being able to recruit to the new roles within a 'narrow' market, the likely timescale for clearing the backlog once the new structure was in place.

It was agreed that it was essential to have the right staff with the right skills. The proposals were endorsed.

9. Work Programme March 2019

The programme for the March 2019 meeting was agreed with the addition of a session with the Actuary on the approach to the 2019 Actuarial Valuation.

The Chair requested that the Fund Risk Register was condensed as far as possible. The item on Fund KPI's was clarified as being the outcome of the Government Actuary Department review of the 2016 actuarial valuations of LGPS Funds.

Signed…………………………………………………….Date…………………
Chair

Appendix B

Pension Board

21 March 2019

Review of Pension Fund Panel - 13 December 2018 and 12 February 2019

13 December 2018

1. GAD Section 13 Report

The Public Service Pensions Act 2013.intoduced a requirement for the Government Actuary's Department (GAD) to test to test the actuarial valuations of all LGPS Funds. GAD is required to report whether LGPS authorities valuation approach satisfies four key aims: compliance, consistency, solvency and long-term cost efficiency.

The score on each is 'flagged' Red, Amber, and Green, to show the fund's status for risks and issues from GAD's perspective

Red	Potentially material issue likely to warrant a recommendation for remedial action from a solvency or long-term cost efficiency perspective.
Amber	Potential issue not serious on its own to merit a recommendation for remedial action from a solvency or long-term cost efficiency perspective
Green	No material issues to require a recommendation for remedial

GAD has no statutory power to enforce actions on administering authorities or their advisers.

The RBK Pension Fund received Green for (compliance, consistency and solvency) and Amber for (long-term cost efficiency).

GAD's perspective is that the Fund appears to have extended its deficit recovery end point by 2 years whilst reducing overall contributions by about 2%.
The modelling for the 2106 valuation validates Kingston's funding strategy over the longer term. There have been lengthy discussions between Hymans Robertson and GAD on its different interpretation of the CIPFA guidance on deficit recovery periods. The actuary's interpretation being that recovery periods mean a fixed number of years – eg 20 – the intention being for funds to have a rolling recovery period which does not extend the number.of years. GAD's interpretation is that the Fund's approach could diminish the probability of the Fund being fully funded at the end of the recovery period.

The GAD view on this will be borne.in mind in the approach to the 2019 actuarial valuation

Kameel Kapitan from Hymans Robertson gave a presentation to the Panel on

the results from both the actuary's and GAD's perspective
a summary of the 2016 valuation approach
Hymans Robertson's experience on the testing of the 2016 actuarial valuation and engagement with GAD; and
insights on the 2019 valuation approach, including the thinking on the longer-term path of contributions for the Fund in light of the GAD results.

Questions from the Panel concerned the view from the 2016 valuation on contribution rates and the approach to these for stability and funding flows.

The report on RBK's Section 13 results and performance in the GAD's assessment against four statutory measures: compliance, consistency, solvency and long-term cost efficiency was noted.

2. Fund Risk Register

The Panel reviews the Fund Risk Register half yearly.

There are 28 open risks categorised as

- Liabilities (4 risks)
- Funding Strategy (2 risks)
- Investments (5 risks)
- Governance and Administration (14 risks)
- Scheme Employers (3 risks)

They are scored in the same way as the Corporate Risk register - . Likelihood (scored 1 to 5) and Impact (1 to 5) multiplied to give the risk score and then rated red/amber/green (RAG) as follows

Red	20 or 25
Amber	12 to 16
Green	0 to 10

There are no red risks. There are 7 amber risks, these and mitigating actions were detailed in paragraphs 10 - 16 of the report.

The nature of some risks - for example those relating to the global economy - –are outside the control of the Council and strategies in place to mitigate the impact of these reflect this. Of the seven amber risks detailed of which only 2 can be directly influenced by the Council. These relate to

resourcing of the service and levels of expertise

maintenance of records

The Panel will continue to receive half-yearly updates, if any additional amber or red risks are identified these will be reported to the earliest available Panel meeting.

The Pension Fund Risk Register was noted and the actions in place to mitigate the key risks are endorsed.

12 February 2019

Pensions Administration

Particular points highlighted on the update from November to January were

Team restructure - this has been positively received by the team and post are in the process of being recruited to but it would probably be April / May before all posts are filled.

Complaints monitoring - a case which has been through stages 1 and 2 of the process is now with the Pensions Ombudsman for consideration this concerns information on retirement benefit options.

Software upgrade - this was completed at the end of January and a review of processes will be carrying out shortly

Guaranteed minimum pension (GMP) reconciliation - the final reports on pensioners data and payments are nearing completion add a report will be submitted to the next meeting there may be some under/over payments. In the case or overpayments national guidance is expected on the approach to be taken on recovery of these which are not the fault of the individual.

Bulk transfers there are 4 in progress and the actuaries for both boroughs are liaising on a common approach to transfer values.

A Panel member commented on the increasing use of online only access in many areas of life and hoped that benefit statements and other records will continue to retain a paper copy option. It was noted that while members are being encouraged to opt for ecopies there remains the option for a paper copy.

Fund performance at 31 December 2018

The value of the fund at December was £817.6 m a decrease of £66.3m (7.5%) from September, illustrating the fall in markets. The fund value is now at the same level as March 2018. The majority of the fall is in equities across all sectors and market conditions are reflected through the performance against benchmark.

Over 1 year UBS had a positive return over the year albeit they are the only fund still reporting performance as gross figures. All of the fund managers fail to meet their benchmark returns and performance targets.

Over 3 years the 3 equity fund managers provided the highest returns and the only fund with a negative return was the Aberdeen Standard DGF.

On the residential property fund investment M&G has confirmed its commitment to the subscription but has not yet issued a notice calling for funds. The Panel is aware that it may take 2 years (from February 2018) for the investment to be made the subscription.

The Investment strategy review is considering options to reduce equity risk, Overall several asset classes do not look particularly attractive. As part of the consideration of diversification options, the investment in Aberdeen Standard, where the allocation has already been reduced, is also being reviewed.

Investment Strategy Review - Bond Portfolio - slides attached on a confidential basis

The Investment Strategy review in September highlighted opportunities to enhance the funds risk-return profile by reallocating a proportion of the bond holding to a multi asset credit fund (MAC). The London CIV now offers a MAC, the Manager is CQS a global manager with over $14 billion under management of which $5 billion is in MAC funds.

The current asset allocation of the fund shows that the bond portfolio is underweight at 12% against a benchmark allocation of 15 %. Aon Hewitt's bond portfolio review shows that reducing the Janus Henderson All Stocks Credit fund by around £32 million and investing in the CIV MAC would lead to greater return and less volatility than the current Bond portfolio

Will McBean and Larissa Benbow from the CIV gave an overview on current developments at the CIV, the greater engagement with Boroughs and the manager selection process. They introduced Soraya Chabarek and Craig Scordellis from CQS

Craig Scordellis the Fund Manager outlined the philosophy of the fund which is to preserve capital and avoid volatility. There are a lot of challenges politically and economically but the fund adheres to the philosophy to return cash plus 4% - 5% with minimum volatility, focusing on the quality of businesses understanding regulatory changes and being in the right asset class or geographical area at the right time. None of the funds' investments represent more than 1.2 %.of the portfolio.
At present whilst there are opportunities for investment, risks include the geo political situation and rate volatilities examples of the funds view of risk areas and those of opportunity were given.
The Panel agreed the reallocation of a portion of the All Stocks Credit fund to the London CIV.

ESG - Next Steps- slides attached on a confidential basis.
Aon Hewitt gave a presentation covering the feedback from members question is giving their views on ESG investment, other LGPS fund approaches and the continuing work on developing a policy on this area of investment.
The responses show that more training is needed in this area; that there is overall agreement on having a responsible investment policy, balancing fiduciary duty and investment; agreement that climate change will have a material impact on investment; no consensus on minimising risk.
The Panel is in a similar position to many other authorities, needing to build knowledge and understanding and clarifying the approach they want to take.

Looking at what is happening in other authorities, the Border to Coast pool (12 LGPS) is doing a lot of work on engagement with companies their approach to client climate change what they are investing in and any decarbonisation processes they are implementing.
The CIV is also working on policy development on this, and it is a fundamental part of its manager selection process. A training session for all members is planned for May.

Next steps for the Panel or further training allocating further discussion time at meetings and further updates on progress in other LGPS funds. This is a complex area and development of a policy and the governance framework will take time.

Local Authority Pension Fund Forum - slides attached

Keith Bray presented the role of the LAPFF and services offered to members.
It is a powerful investor body, members investments are £260bn and has considerable influence in areas/ issues affecting LGPS schemes. Representatives of LAPFF always discuss these with companies / organisations at Board level.
An example of its influence is the evidence it has given on the need for changes to the Financial Reporting Council - regulating conduct of banks and auditors - where it considers the organisation to be unworkable and has called for its replacement.

Another example is its stance on ESG investment, in the face of pressure for LA funds to divest, particularly from oil related investments, the LAPF view is that this is a blunt tool. Funds can have more effect on change as investors engaging with companies.

No of members 79 UK LA funds. Annual Subscription £9,500

The Panel decided there were benefits in membership of the LAPFF and agreed to join.

LGPS Governance Conference - January
The Chair had attended this conference over 2 days in Bristol. Over half the sessions had concerned responsible investing. He was interested by an approach in Merseyside where a small percentage of the fund is invested in local RI projects which offer a positive return.

Pension Board

21 March 2019

Work Programme 2019-20

Report by Head of Investment, Risk and Commercial Finance - Resources

Purpose

To update the Board's proposed work programme for 2019-20.

Recommendations

To **agree** the work programme as set out in paragraphs 2 and 3 of this report.

Key Points

A. This report sets out the programme of work which the Board will need to carry out in 2019-20.

Context

1. It is appropriate for the Board to set out a structured work programme to enable it to carry out its functions effectively.

Draft Programme for 2019-20

2. The list of meeting dates and the key items scheduled (others will be added during the year) are as follows:

a) 24 June 2019

i) Fund Governance matters

- Pension Fund Risk Register
- Pension Board training

ii) Review of Pension Fund Panel business

b) 11 November 2019

i) Fund Governance matters

- Pension Fund accounts and auditor's report 2018-19
- Pension Fund annual report 2018-19
- Pension Fund Risk Register
- Triennial valuation

ii) Review of Pension Fund Panel business

c) 23 March 2020

i) Fund Governance matters
- Pension Fund Risk Register
- Pension Board training

ii) Review of Pension Fund Panel business

3. The review of Pension Fund Panel business will include (among others)
   - Investment performance / monitoring
   - London CIV update
   - Pensions Administration matters

4. The above list will be varied should developments between now and the meeting date necessitate that. The Chair will be kept informed of these developments.

Background papers: None

Author of report – Antony Huggett, Investment, Insurance and Commercial Manager - Resources
email: antony.huggett@sutton.gov.uk phone: 020 8770 6118