ROYAL BOROUGH OF KINGSTON UPON THAMES

PENSION FUND PANEL

13 DECEMBER 2018

10:00 am – 1:45 pm

Councillor Mark Beynon **(Chair)**
Councillor Dennis Goodship **(Vice Chair)**
Councillor Roy Arora
Councillor Jaesung Ha
Councillor Alison Holt

	Non-Voting Observer Members		**Co opted Member**
	Lesley Diston	Kingston University	Vacant
*	Majid Mafi	RBK Staff Side	
*	Chris Coke	Retired Members	

* Absent
** Absent due to other Council business

Apologies for absence were received from Chris Coke and majid Mafi o.

Substitute Member – Marc Cooper for Majid Mafi.

Declarations of Interest

Councillor Alison Holt declared a non –pecuniary interest in connection with item 27 in that her husband is a former employee of Hymans Roberts; this dates from more than 20 years ago and there is no relationship with Hymans Robertson now.

22. Minutes **Appendix A**

Resolved that the minutes of the meeting held on 8 November 2018 are confirmed as a correct record.

23. Pensions Administration Update **Appendix B**

An update on the main work streams impacting pension administration for the period to October 2018 was presented.

Particular points highlighted were

Annual Returns and Annual Benefit Statements 2018 - Updating member records for those schools which did not meet the Annual Return Submission deadline. Their Annual Benefit Statements have now been issued.

As provided in the Pensions Administration Strategy a penalty charge has been issued to the 11 London Borough of Sutton schools and 1 Royal Borough of Kingston upon Thames school, for the late submission of their annual return. The charges range from £255 to £487 per school.

At September 2018, the total number of outstanding processes was:

Total number of open processes	2695
Total processes overdue	2028
Processes more than 3 months overdue	947

The total number of processes started for August 2018 was 2,840, an almost 30% increase on the monthly average for period April 2018 to July 2018. This arose from work identified via the annual returns.

A restructure of the Pensions Administration Team is currently being considered deal with the outstanding and ongoing workload. In the very short-term a number of initiatives are being considered to ensure that the longstanding overdue processes are dealt with.

Self service registration – the take up of this is currently around 50%.
Performance on service level agreements and various other aspects of the pensions administration workload was also reported.

Resolved that the Pensions Administration update is noted.

24. Equity Investment - Training Session **Appendix C**

Daniel Carpenter and Mark Searle of Aon Hewitt presented a training session on equity investment. This covered investment beliefs, style diversification, performance monitoring and governance, giving the Panel an overview of the key considerations for the Equity portfolio review.

The aim being to establish the Panel’s views on Equity; passive and active styles of management; geographical allocation and hedging.

The discussion ranged over

Active and passive styles - returns v liabilities and the risk profiles of each style
UK Global allocations
Manager styles and selection
Fee structures
Equity options available via the CIV

The Panel thanked Daniel and Mark for the presentation.

The February meeting will be discussing bond allocations.

Resolved that the points arising from discussion on the training session are noted and reflected in future reports on the Investment Strategy review.

25. Performance For Quarter To 30/9/2018 Appendix D

The value of the Fund's investments at 30 June 2018 was £883.9.m. This is an increase of £28.2m (3.3%) from the total value at the end of June 2018.

Over the year Sept 17 – Sept 18 the Fund has increased from £814.6m. The composition of the Fund at 30 September was

Equities	62.5%
DGF	21%
Bonds	11.4%
Property	5.1%

A commentary from each of the fund managers outlining their investment performance during the quarter to 30 September 2018 was included as Annexes 1-9. Performance figures are net of fees except in the case of UBS which for the present is shown gross. This is due to technical issues with the data feed they use and their internal reporting systems; possible solutions to this are being discussed with officers for future reporting.

Performance over the year to September 2018 - The Baillie Gifford and Ruffer portfolios are not included, as these investments began in October 2017.
The highest fund returns for the year were from the equity fund managers, Fidelity (12.5%), Columbia Threadneedle (16.6%), Schroders (9.7%) and the property fund manager UBS (8.7% gross).
Columbia Threadneedle were the only fund manager to both exceed their benchmark return and outperformance target.
The Janus Henderson All Stocks Credit Fund (ASC) was the only other fund to exceed its benchmark (0.6%).
The Janus Henderson Total Return Bond Fund (TRB) fell short of the 6% pa target return by -7.5%. This fund is intended to provide some diversification by protecting against falls in bond asset prices

The Diversified Growth Funds (DGF) - London CIV Pyrford Total Return Diversified Growth Fund and Standard Life returns for the year were 1.2% and -2.2% respectively.

Bonds - The Janus Henderson All Stocks Credit Bond Fund (ASC) returned 1.0% exceeding its benchmark by 0.4%
The Janus Henderson Horizon Total Return Bond Fund (TRB) fell short of the 6% pa target return by -6.6%. The TRB is intended to provide some diversification by protecting against falls in bond.

Performance over 3 years to September 18 - The three equity fund managers provided the highest returns over the rolling three year period. The Standard Life DGF was the lowest.

The managers exceeding their benchmark return were Columbia Threadneedle, Janus Henderson ASC and Pyrford. Fidelity, Schroders, UBS and Standard Life all failed to meet both their benchmark return and outperformance targets.

Developments since the September meeting

In November Aberdeen Standard Investments (ASI) advised that Guy Stern, Head of the Multi-Asset Investing team and lead for managing the Standard Life Global Absolute Return Strategies (GARS) fund, is planning to retire in 2019. In February 2019 Aymeric Forest, is expected to join the firm in February 2019 in this role and begin the transition of responsibilities from Mr Stern of as Head of Multi-Asset Investing. Mr Forest was previously a senior investment professional in the Multi-Asset team at Schroders,

Points from the Panel discussion concerned the performance of equities and the rewards for this; the changing market conditions and Brexit considerations and the implications for the investment strategy discussions.

Resolved that the latest performance information is noted.

26. Presentations from and Discussions with Fund Managers

The Panel met Mark Fulwood, and Matt Argent of Janus Henderson who gave a commentary on the bonds element of the portfolio, .the fund structure, performance and outlook; responses to Member questions and a general discussion.

Members thanked them for their presentations and commentary.

7.2% of the Fund is held in the All Stocks Credit Fund (a pooled investment). The value of the fund at 30 September 2018 was £63.83m (30 September 2017 £63.52m.

4.2% of the Fund - is held in the Return Bond Fund (TRB). The value of the fund at 30 September 2018 was £36.72m (30 September 2017 £37.14m).

A brief update on developments since the completion of the Henderson: Janus Capital Group merger in May 2017 was given. During the summer of 2018 the Co CEO arrangements over the integration period ended and Dick Will the former Janus Chief Executive was appointed as Chief

Market review - 2017 was a year of exceptionally low volatility, 2018 is the opposite – in the US equities and fixed income have underperformed. There is continuing domestic growth but Emerging & European markets have struggles. US interest rates are rising but going down in the rest of the world.
The UK gilts market has performed very well, emerging markets have been the worst performing.

All Stocks Credit Fund – this is a traditional fixed income fund with two thirds of the fund invested.

The asset allocations and current positioning were discussed together with the strategies which had worked and those which hadn't. Positioning is more neutral than a year ago.
Questions concerned performance; the asset classes delivering returns and the outlook for returns; and exposure reflecting Brexit scenarios.

Total Return Bond Fund **–** this does not have a benchmark but looks at possibilities everywhere to deliver a total return through income opportunities and capital appreciation. The effects of the weaker market environment in 2018 on returns were disappointing and changes to allocations with a view for improved positioning into 2019 were discussed.
Questions concerned interest rate movements; investor activity, challenges for UK Corporate Bonds and positioning.

27. GAD Section 13 Report **Appendix E**

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 Flag 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 Panel will be kept updated on ongoing discussions with GAD and/or CIPFA on anomalies in the Regulations,

Resolved that:

1. the report and the Fund actuary's presentation on RBK's Section 13 results

2 RBK Pension Fund's performance in the GAD's assessment against four statutory measures: compliance, consistency, solvency and long-term cost efficiency

is noted.

28. Fund Risk Register **Appendix F**

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.
Currently there are no red risks. There are seven amber risks - these are 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 receive half-yearly updates, if any additional amber or red risks are identified these will be reported to the earliest available Panel meeting.

Resolved that the current position on the Pension Fund Risk Register is noted and the actions in place to mitigate the key risks are endorsed.

29. Update on Brexit **Appendix G**

Aon Hewitt, the Fund's Investment Adviser had been asked to consider and report on the potential outcomes from the UK Brexit negotiations and the likely impact of each scenario on the economy, financial markets, asset classes and the likely impact on the RBK Pension Fund investment portfolio and funding level.

Daniel Carpenter and Mark Searle presented the analysis showing how under the scenarios of "Deal" (the base case), "Fudged - No Deal", "Cliff-edge" and "Severe – No Deal" the Pension Fund funding level may develop over the next 5 years under different scenarios. A Brexit Risk Matrix and strategy considerations were also presented.

Under the base case "Deal" scenario, improved growth prospects and better risk appetite could be conducive to UK equity. However appreciation of Sterling would cause overseas investments to underperform in Sterling terms. Conversely, a No-Deal or "Cliff-edge" Brexit could precipitate political and economic instability leading to a recession and protracted low-growth environment.
Modelling suggest that all Brexit scenarios are potentially detrimental for funding levels but the "Cliff-edge" could exacerbate the funding deficit during 2019. Brexit decisions will impact on the timing of Portfolio changes which the Panel has been discussing over recent meetings.

Comments from the Panel concerned the long term nature of investment decisions and the need to be prepared for any adjustments needed to the timing of these. This will be discussed further ta the February meeting.

Resolved that the Panel notes :

1. Aon Hewitt's report on the likely impacts of the possible Brexit scenarios on the Pension Fund investments;

2. how the Pension Fund funding level may develop over the next five years under various scenarios;.

3. the Brexit Risk Matrix and the strategy considerations under various Brexit scenarios.

30. Updates on the LGPS Environment **Appendix H**

The Panel considered an overview of recent important developments in LGPS pensions including actuarial valuation of the Public Service Pension Scheme (PSPS), the Scheme Advisory Board (SAB) Separation Project and the SAB review of LGPS third tier employers.

The Public Service Pension Schemes environment is continuing to undergo change with consequences for the Local Government Pension Scheme.
Some of the most important developments include: actuarial valuations of the PSPS, the SAB LGPS Separation Project and SAB review of LGPS third tier employers

The Government is considering extending the four-yearly actuarial valuation cycle, in use in other public sector schemes, to the LGPS. The belief is that this will minimise complications and aid transparent comparisons with the other public service pension schemes.

The LGPS Scheme Advisory Board (SAB), which advises the Secretary of State on the development of the LGPS has commissioned work to develop options for change on the separation of LGPS pension funds and their hosts (administering authorities).

The SAB has also initiated a review of the experience of “third tier employers (admitted and other bodies) in the LGPS.

It will be some time before the outcome of the work is known and the Panel will be kept updated.

Resolved that the updates on the LGPS Pensions Environment are noted.

31. ESG Update

Following the training session and discussion on responsible investing at the November meeting, Lyndsey Gamble gave a verbal update on continuing work on this in preparation for the February meeting and subsequent meetings on this.

Aon is preparing a questionnaire for circulation to the Panel in January. This is to capture the values and beliefs of the Panel in preparation for a discussion in February on development.

It is also planned to invite representatives of the Local Government Pension Service (LGPS) to a Panel meeting to discuss its approach to ESG engagement.

Information on Local Authority funds which have already adopted a framework on responsible investment, and their process(es) for this will also be discussed.

Resolved that the update is noted.

32. REVIEW OF WORK PROGRAMME **Appendix I**

The proposed Work Programme for February to December 2109 was reviewed, this is subject to change in the light of any developments in the LGPS world.
It was agreed that the discussion on the 2019 triennial valuation would be moved from February to the first meeting in the municipal year in May/June.

Resolved that the amended work programme is agreed.

33. Exclusion of the Press and Public

Resolved that the public are excluded 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 paragraphs 1 and 3 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.

Risk Register	Appendix G Annex 1
Update on Brexit	Appendix H Annex

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