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.