

PENSION BOARD

MINUTES of a meeting of the Pension Board held at County Hall, Lewes on 3 August 2017.

PRESENT

Richard Harbord (Chair) Councillor Kevin Allen,
Angie Embury, Bernadette Carlyle, Sue McHugh,
Councillor Brian Redman and Tony Watson

ALSO PRESENT

Councillor David Elkin, Lead Member for Resources
Ian Gutsell, Chief Finance Officer
Ola Owolabi, Head of Pensions
Wendy Neller, Pensions Strategy and Governance Manager
John Shepherd, Finance Manager (Pension Fund)
Russell Wood, Principal Pensions Officer
Brian Smith, Regional Operations Manager
Jason Bailey, Pension Services Manager
Harvey Winder, Democratic Services Officer

16 MINUTES

16.1 The Committee RESOLVED to agree the minutes subject to the removal of the line in paragraph 11.3:

"Note – the agreed survey response will be attached as a supplement of the agenda."

17 APOLOGIES FOR ABSENCE

17.1 There were no apologies for absence.

18 DISCLOSURE OF INTERESTS

18.1 There were no disclosures of interest.

19 URGENT ITEMS

19.1 There were none.

20 PENSION COMMITTEE AGENDA

20.1. The Board considered the Pension Committee's agenda for its 4 September meeting. A draft of Hymans Robertson's quarterly performance report was tabled at the meeting.

20.2. Ola Owolabi (OO), Head of Pensions, explained that the Pension Committee agenda would also include a presentation from the Environment Agency about Environmental, Social and Governance (ESG) issues. This will tie in with other discussions about ESG at the meeting.

Item 5: Petition – Disinvest from fossil fuels

20.3. OO explained that Brighton & Hove City Council's (BHCC) notice of motion calling for divestment over a five-year period would be included as an additional appendix to the report.

20.4. Councillor Kevin Allen (KA) questioned whether once ACCESS is operational the East Sussex Pension Fund (ESPF) will have as much ability to influence companies' environmental, human rights and other policies as they will no longer be able to hire and fire fund managers.

20.5. OO said that, once ACCESS is operational, fund managers will be allocated by the 'operator' to sub-funds of different asset classes. Individual funds will retain an Investment Strategy Statement (ISS), which sets out how their fund considers ESG investments, and will be able to allocate their assets into ACCESS sub funds based on their ISS and the Fund Assets Allocation. In addition, the Local Authority Pension Fund Forum (LAPFF) will continue its role in influencing fossil fuel companies so long as local authority pension funds invested in them.

20.6. Sue McHugh (SM) asked whether a watching brief should be kept on the performance of fossil fuel companies now that divestment seemed to be gaining traction amongst local government pension funds and other investors.

20.7. OO said that the Pension Committee was considering the issue of ESG investments closely and had dedicated considerable discussion to the matter at the investment strategy review day on 17 July. Those discussions will form the basis of a report being drafted for consideration by the Pension Committee at its 4 September meeting on proposals for the ISS in relation to sustainable investment, for example, carbon tilting. He confirmed that if there was any agreement to change the ISS it would require a formal decision by the Committee, and would go to the Board first for comment. He clarified that the investment strategy day was an opportunity to look in depth at ESG issues and no decisions were taken during the event.

20.8. Councillor Richard Stogdon (RS), Chair of the Pension Committee, added that only one local government pension fund had so far resolved to dis-invest in fossil fuels. Based on his discussions with representatives of other local government pension funds, it seems that most administering authorities are in agreement that whilst they are talking about divestment, there is a unanimity that total divestment is a blunt instrument that would be difficult to implement without causing wider disruption to pension fund returns.

Item 8: Quarterly Performance Report – Hymans Robertson

20.9. OO confirmed that the performance of fund managers, as indicated in the Hymans Robertson's report, has been very good – with M&G – Bonds in particular outperforming its benchmark over the past quarter. Schroders had not yet submitted its performance figures but they are expected to be good. He added that Schroder Property was still on watch due to the significant change in management at the firm causing uncertainty as to its strategic direction.

20.10. The Board RESOLVED to:

1) note the report; and

2) request that the ESG report due to be considered by the Committee in September is considered at the 7 November Board meeting.

21 GENERAL DATA PROTECTION REGULATION COMPLIANCE

21.1. The Board considered a report on the General Data Protection Regulation (GDPR).

21.2. BR asked whether there was any indication what the financial and workforce implications would be of the GDPR on the Pension Administration Team.

21.3. Jason Bailey (JB), Pension Services Manager, said that a future report was planned for the Board and Committee to provide assurance that the Pension Administration Team will be in compliance with the GDPR by May 2018. Guidance on the GDPR is still being drafted and when

it is published, the ESPF policies will need to be checked against it. The current pension service is in compliance with current requirements, for example, around data protection measures and obtaining members' consent. It will need to be established to what extent practices need to change around seeking explicit consent, for example, around data sharing with other authorities where at the moment a scheme member only needs to be informed. If this requires a change in the process of data sharing then it will have resource implications.

21.4. Ian Gutsell (IG), Chief Finance Officer, confirmed that the ESPF's practices for safeguarding member data comply with previous good governance requirements but would need to be checked against the new regulations. He said that the issue of stricter requirements around consent to transfer data to other organisations is likely to be the main area of concern.

21.5. JB said that the Local Government Association (LGA) has commissioned a piece legal advice on the issue nationally to determine the implications.

21.6. Wendy Neller (WN), Pension Strategy and Governance Manager, summarised that the new regulations placed additional responsibilities on data processors (those carrying out processing on the data controller's (administering authority's) behalf). The GDPR places greater emphasis on the documentation that data controllers must keep to demonstrate their accountability. There is a 12-step GDPR checklist supplied by the Information Commissioner's Officer (ICO) to highlight steps to take to prepare for the regulations that apply from 25 May 2018.

21.7. The Board RESOLVED to note the report.

22 GOVERNANCE COMPLIANCE STATEMENT

22.1. The Board considered a report on the ESPF's Governance Policy Statement.

22.2. SM asked whether the Governance Policy Statement would be amended to take account of the governance changes resulting from ACCESS becoming operational in April 2018. OO confirmed that it would be revised after April 2018 to include the finalised role of the ACCESS Joint Governance Committee in relation to the Board and Committee.

22.3. BR asked for clarification about the role of Vice Chair of the Pension Board. OO said that discussions were ongoing about how best to appoint a Vice Chair. Any appointment would need to be made by the Governance Committee

22.4. Tony Watson (TW) asked that the Membership of the Pension Board (paragraph 13 of appendix 1) reflect that the employer representatives represented Brighton & Hove City Council, the University of Brighton, and the district/borough councils; and that the employee representatives list that they are a Unison, GMB, and pension representative respectively.

22.5. The Board resolved to:

- 1) note the report; and
- 2) request the amendment set out in paragraph 7.4 above.

23 MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MIFID II) UPDATE

23.1. The Board considered a report providing an update on the Markets in Financial Instruments Directive (MiFID II).

23.2. The Board welcomed the Financial Conduct Authority (FCA) allowing Local Government Pension Schemes (LGPS) to 'opt up' to elective professional status.

23.3. The Board RESOLVED to:

1) note the report; and

2) recommend to the Pension Committee that officers are authorised, in consultation with the Chair, to progress the necessary actions aimed at achieving elective professional status for the Fund with effect from 3 January 2018.

24 LOCAL GOVERNMENT PENSION SCHEME POOLING - ACCESS UPDATES

24.1. The Board considered a report on the activities undertaken by the ACCESS group.

24.2. The Chair said that although there will not be any changes to the terms of reference of the Pension Board, there will be subtle changes to the way in which it assists the decision-making around the ESPF. This is because of the difficulty in holding the ACCESS Joint Governance Committee to account compared to the Pension Committee. He said that it was important that the Board's role within the ACCESS framework is made clear before April 2018.

24.3. Angie Embury (AE) said that Unison is lobbying to secure employee representation within the eight pooled funds. The Chair pointed out that none of the eight pooled funds yet have an equivalent of a pension board (with employer representatives) that assist their joint committees.

24.4. OO confirmed that the ACCESS Joint Governance Committee comprises a representative of the pension committees of each of the 11 administering authorities; the representative is either the Chair or Vice Chair of each committee. Cllr Stogdon is elected as the Vice Chair of the ACCESS Joint Governance Committee. The Committee met for the first time as a fully-fledged committee on 31 July 2017 at Camden Town Hall.

24.5. OO explained that although the requirement of pooling funds was to remove the power of pension committees to hire and fire investment managers, the committees will retain almost all of their existing powers, for example, the power to determine which asset classes to invest in based on their ISS; and they will retain all of their responsibilities around securing compliance with LGPS regulations. Pension boards will be able to continue to assist the committees with all of these matters.

24.6. OO clarified that the £3.3bn ESPF would not all be pooled into ACCESS in April 2018, but the transition of liquid and non-liquid assets will be gradual over the next few years. 50% of those funds are passive and will go into a national passive procurement framework (along with other ACCESS funds) that is to be appointed to a single investment manager prior to April 2018 (from 9 Funds investing in passive assets on behalf of the ACCESS funds). Other investments are illiquid and will need to mature, such as property, infrastructure, and private equity and so will not be pooled immediately. In total, around 10% of funds, from active investments, will transfer to the ACCESS pool from April 2018.

24.7. OO said that ACCESS will look at what asset classes all 11 funds want to invest in and match them with the investment managers who can provide the best returns on those assets. Investment managers will be seeded into the pool to avoid transition costs in the short term, rather than transferring those funds straight to new fund managers. This means that to start with there may be significant numbers of investment managers, but the number will be rationalised to achieve the benefits of scale. Over the next few years there should be evidence of these benefits of scale through a reduction in the cost to the ESPF in managers' fees.

24.8. OO explained that ACCESS is currently going through the process of appointing an operator and a 'concept viability day' has already taken place, which involves publishing a specification and inviting companies to speak with ACCESS Members and officers to demonstrate their ability to provide the service. RS said that there had been a number of potential operators looking as if they could adequately fulfil the role. Kent County Council is leading the procurement process and RS has been appointed as the lead ACCESS Member on the operator procurement sub-group.

24.9. RS said that in theory the economies of scale should obviate the costs of investment managers, but the considerable transition cost and requirement to rent or build a FCA licenced operator might negate these savings.

24.10. BR asked for clarity about how exactly the operator will interact with existing officers from the administering authorities. The Chair suggested that the Board be provided with a clear description of the ACCESS structure at the training session in September.

24.11. The Board RESOLVED to:

- 1) note the report;
- 2) request to clarify the roles and responsibilities of ACCESS, and its governance arrangements and the effect on the Board and Committee at the 26 September training session;
- 3) to request the details of the other 10 pension board chairs in the ACCESS group.

25 REVIEW OF MANAGERS' FEES

25.1. The Board considered a report on the level of investment managers' fees for 2016/17.

25.2. SM observed that it was tricky to judge the future cost of investment management fees given the effect that ACCESS pooling will have on them.

25.3. The Chair took the point that the considerable increase in the value of the fund outweighed the smaller increases in managers' fees, but he cautioned that the considerable increase in the fund's value does not necessarily justify the fee increase, as there is no way to judge what would have happened to the fund's value without the investment managers' involvement.

25.4. AE observed that annual increases in the fees have fallen from 9% to 1% despite the continued increases in the fund's value, indicating a recognition of the pressure to reduce fee costs.

25.5. OO said that officers were doing their best to get managers to review their fees and had successfully reduced the State Street fee by £137,000. State Street, however, did not bid for the passive investment framework.

25.6. The Chair observed that investment fees never used to be the issue – client relationship and fund performance were the key determinants of the value of an investment manager. There has, however, been a change in the last few years towards ensuring that managers reduce fees wherever possible.

25.7. The Board RESOLVED to note the report.

26 OFFICERS' REPORT - BUSINESS OPERATIONS

26.1. The Board considered a report about the Business Operations Team.

26.2. JB confirmed that the Team is on target to deliver all annual benefit statements to employees by 31 August, despite the tight deadline. The Statements will be available online this year for active members with emails, all deferred members will be sent the statement via post and encouraged to register online.

26.3. JB confirmed that stage 2 of the Guaranteed Minimum Pension (GMP) reconciliation process will commence during the next week as HM Revenue & Customs is due to issue the data requested for stage 2.

26.4. The Board RESOLVED to:

- 1) note the report; and
- 2) recommend that the Pension Committee agree to the proposal to use a monthly mortality screening service.

27 OFFICERS' REPORT - GENERAL UPDATE

- 27.1. The Board considered a general update on pension issues.
- 27.2. BR asked why the projected outturn for employer contributions in 2017/18 is now considerably higher than the original prediction.
- 27.3. OO explained that the adjustments to employer contributions from the triannual valuation are in place and there is an expectation that employer contributions will therefore go up, hence the £7m higher projected (as at 30 June 2017) outturn in the 2017/18.
- 27.4. The Chair observed that a lot of funds are cash flow negative, so it is good news that the ESPF is in such good shape.
- 27.5. The Board RESOLVED to note the report.

28 WORK PROGRAMME

- 28.1. The Board considered its work programme.
- 28.2. The Board RESOLVED:
 - 1) to note the report; and
 - 2) to consider a report at a future meeting on how well the Board Members have met the training requirements set out in the training log.

The meeting ended at 12.00 pm.

Richard Harbord
Chair