

## PENSION BOARD

DRAFT MINUTES of a meeting of the Pension Board held at Chairman's Function Room, County Hall, Lewes on 10 July 2015.

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PRESENT Richard Harbord (Chair), Angie Embury, Sue McHugh, Councillor Brian Redman, Tony Watson, Councillor Kevin Allen and David Zwirek

ALSO PRESENT Marion Kelly, ESCC Chief Finance Officer; Ola Owolabi, ESCC Head of Accounts & Pensions; John Shepherd, Finance Manager (Pension Fund); Wendy Neller, Pensions Strategy and Governance Manager; Jason Bailey, SCC Pension Services Manager; Giles Rossington, Senior Democratic Services Adviser; Harvey Winder, Democratic Services Officer

### 1 APOLOGIES FOR ABSENCE

1.1 There were no apologies.

1.2 Cllr Kevin Allen has replaced Cllr Andrew Wealls as the representative from Brighton & Hove City Council.

### 2 DISCLOSURE OF INTERESTS

2.1 There were none declared at this point, but some members declared a personal interest when discussing specific agenda items.

### 3 CONSTITUTION AND TERMS OF REFERENCE

3.1 Members discussed whether to appoint a Pension Board Vice Chair, deciding instead that a temporary Chair would be appointed on an ad hoc basis should one be required.

3.2 Cllr Brian Redman (BR) sought clarification as to whether Pension Board members who are also members of the Local Government Pension Scheme (LGPS) could be deemed to have a clash of interests. Officers agreed to seek clarification on this point.

### 4 PENSION COMMITTEE AGENDA

4.1 The Chair, Richard Harbord (RH) told members that the Pension Board needed a mechanism for considering and commenting on exempt items due to be reported to Pension Committee. Marion Kelly (MK), Chief Finance Officer, agreed that a process should be determined, but noted that Pension Committee would not commonly be expected to consider exempt reports. Reports detailing the award or termination of contracts would typically be exempt, but such reports are seldom taken.

### 4a PENSION FUND REPORT & ACCOUNTS, 2014/15

- 4a.1 This item was introduced by Ola Owolabi, Head of Accounts and Pensions (OO).
- 4a.2 David Zwirek (DZ) proposed that the Pension Board should examine the issue of the fees charged by Investment Managers, particularly in terms of recent increase in these costs at a period where the performance of the funds does not obviously justify high charges (e.g. when compared with investing in a fund that tracks the market).
- 4a.3 Angie Embury (AE) agreed, adding that it was also important to understand the total cost of transaction charges etc. – and therefore gain a holistic understanding of the additional costs involved in employing very ‘active’ Investment Managers.
- 4a.4 DZ also proposed scrutinising the performance of Investment Managers, noting that the long term performance of East Sussex investments is only around the 50<sup>th</sup> percentile when benchmarked.
- 4a.5 In addition, DZ proposed examining the level of Pension Fund liabilities, seeking to establish whether the current levels present an acceptable risk, and what plans are in place to address the current deficit.
- 4a.6 Sue McHugh (SM) suggested that it might be useful to consider Investment Manager performance inclusive of fees, rather than exclusive of fees as is typically the case.
- 4a.7 The Chair agreed that the Board should be interested in the issues of the costs of investment activity, the performance of various fund managers, and the degree to which the scheme is funded. The Chair proposed, and members agreed, that the Board should receive reports on Investment Manager fees and performance (including benchmarking information), and on implications of the scheme funding level at the next Board meeting.
- 4a.8 MK told members that she was happy to report on the above issues. In terms of performance, it was important to recognise that in investment terms, high performance is strongly correlated with high risk investment strategies. It is therefore necessary to understand performance in the context of the fund’s investment strategy: high returns often reflect high risk and/or the acceptance of high volatility. MK also noted that the issue of fees had been recently explored with Investment Managers.
- 4a.9 SM noted that it would be useful for the Board to know how the Pension Committee proposed dealing with the issues of fees, performance and the degree to which the scheme is funded.

4b MEETING WITH INVESTMENT ADVISORS - HYMANS ROBERTSON REPORT

- 4b.1 This item was introduced by Ola Owolabi, Head of Accounts and Pensions (OO).
- 4b.2 The Chair noted that, in order to fully comprehend the information in this report, Board members needed to understand how the fund benchmark is calculated. MK agreed, noting that fund performance (and hence the benchmark figures) has to be viewed relative to the fund investment strategy, since the strategy will determine the level of returns that Investment managers seek. The Fund has had a strategy of diversification and pursuing less volatile returns overall by hedging against equities – it is crucial to judge performance in the context of the objectives of the investment strategy. Additionally, there has been a recent disinvestment in equities in favour of gilts. The intention here has been to reduce risk levels by increasing holdings of low risk investments. This is fully in line with the strategy, and was recommended by Hymans as a way to ‘lock-in’ recent gains. However, this will inevitably have resulted in a lower

return on investment, which needs to be understood as a positive rather than a negative, even though it may appear on face-value to indicate under-performance.

- 4b.3 SM commented that it would be useful for a report on Investment Manager fees and performance to include information on how performance targets are set. SM noted that she was uncomfortable about setting performance targets that are gross of fees, as this appears to offer a poor incentive.
- 4b.4 MK told members that the Board could talk to the fund's independent advisors about these issues, although this would entail an additional expense. The Board has no set budget to pay for this type of training, but sensible costs would be met. The Chair noted that, given the costs involved, it was important that the Board was clear on how it wanted to use the fund's independent advisors before meeting with them.
- 4b.5 In response to a query from BR, MK explained that the Hyman's report in the Board papers was the same report that would go to 27 July Pension Committee. These reports will unavoidably focus on the previous quarter's activities; a more up to date report would be too expensive to produce.
- 4b.6 There was discussion about the performance of Lazard's, with MK telling members that there has been a performance issue here for several years.
- 4b.7 Members discussed their training needs. It was noted that it was unlikely that there could be shared training with the Pension Committee. Cllr Kevin Allen (KA) noted that, as a recent appointee he had not yet received any training, although he was eager to undertake some.
- 4b.8 The Chair expressed his preference for short sharp training sessions rather than lengthy and expensive training.
- 4b.9 AE made the point that she was unhappy that Pension Committee members could make substantive decisions about the pension fund without necessarily having had the level of training in pension issues required of Unison representatives on the Pension Board. MK noted that the recent Government regulations on training had focused on the Pension Board rather than on Pension Committees as the Board is an entirely new body. However, as with any other local authority body, it was incumbent on the county council to ensure that all elected member decisions are appropriately informed.

#### 4c GOVERNANCE COMPLIANCE STATEMENT

- 4c.1 There were no comments on this item.

#### 5a OFFICERS' REPORT - BUSINESS OPERATIONS

- 5a.1 This item was introduced by Jason Bailey (JB), Pension Services Manager, Surrey County Council.
- 5a.2 DZ declared a personal interest in this item, as he has been professionally involved in trade union activity regarding Orbis.
- 5a.3 MK explained that the pension fund administration has for two years been shared with Surrey County Council. In recent months this arrangement has been extended to the joint provision of a wide-range of 'back office' functions including the finance function itself, up to and including the Chief Finance Officer under the aegis of 'Orbis'. Orbis is in fact a brand rather than a separate organisation. It is overseen by a joint committee of East Sussex and Surrey County Councils.

- 5a.4 JB added that the East Sussex fund administration team was being integrated with the much larger Surrey team. In time this would reduce administration costs and improve resilience. There is also investment in improved IT systems.
- 5a.5 Currently, there are a number of areas where performance is below target. This is in part due to difficulties associated with moving to the new CARE pension. Since employees who were members of the previous final salary scheme have retained their historical rights, this means that in effect two schemes are now being administered without any uplift in staffing. Orbis is currently benchmarking its staffing levels and may need to review them. Changes to rules around voluntary retirement have also led to an increase in queries from scheme members, that has impacted upon administrative staff time although not to date on the fund itself (as few enquiries result in members actually withdrawing from the scheme).
- 5a.6 BR suggested that Orbis might wish to reconsider whether its targets were all still relevant. It may be that the costs of employing additional staff to reach targets cannot be justified and that the target should instead be relaxed. The Chair recognised the validity of this argument, but noted that customer care was an important factor in terms of pensions, as scheme members were increasingly anxious about their pension provision. JB agreed, informing the Board that customer care was a priority for Orbis, and that he would welcome the opportunity to report back to the Board on this issue. RH noted that he considers this to be a prime area of focus for the Pension Board.

## 5b OFFICERS' REPORT - GENERAL UPDATE

- 5b.1 This item was introduced by Ola Owolabi, Head of Accounts and Pensions (OO).
- 5b.2 OO informed the Board about several issues including a recent surplus in fund cash-flow; Government interest in pursuing innovations in terms of: (a) the role of Section 151 officers, (b) having joint committees of pension authorities, and (c) the complete separation of local authorities from pension schemes. MK added that the Government had also announced plans to consult on Collective Investment Vehicles: e.g. the joint procurement of fund Investment Managers.
- 5b.3 In answer to a query from BR on why forecast administration costs for the current year of £2.2m were much higher than the actual costs for 14/15 of £1.7m, i.e., a variation of £0.5m, OO promised to come back with a detailed answer.
- 5b.4 In response to a query from DZ as to whether the fund's returns on cash investments were maximised, John Shepherd (JS) explained that the strategic cash figure of £80M in the reports was the total cash held by the Fund at a particular point in time, i.e., as at 31 March 2015: the majority of this (C £60M) was cash held temporarily by Investment Managers pending future investments. Safety rather than maximising returns is the main factor in determining how this cash is managed.

## 6 PENSION BOARD FORWARD PLAN 2015/16

- 6.1 This item was introduced by Ola Owolabi, Head of Accounts and Pensions (OO).
- 6.2 OO explained that the work programme/forward plan report included all the main policies that would need to be reviewed. Officers will continue to develop this plan, proposing how regularly various policies should be reviewed and putting together a timetable for this.

- 6.3 In terms of work programme issues, the Chair noted that he was eager to view the pension fund Risk Register in the near future. MK agreed that it should be added to the Board work programme.
- 6.4 In terms of the Board training programme, BR noted that although he had considerable experience in issues relating to investment, he knew little about the actual pension scheme terms or administration. MK assured members that there would be training on this.
- 6.5 The Chair remarked that there would clearly need to be a period of assimilation and learning before the Board was fully effective.

## 7 ANY OTHER BUSINESS

- 7.1 DZ raised the issue of substitutes for Board Members. He spoke in favour of allowing them. The Chair noted that the current position was that substitute members were to be allowed at the discretion of the Board. However, he was not happy with this position.
- 7.2 BR remarked he was unaware that the option of having substitutes had been discussed with the District & Borough councils. He opposed having substitutes on the Pension Board.
- 7.3 MK told members that the initial position had been that there would be no substitutes permitted, but that Governance Committee had agreed to leave this to the Board's discretion following lobbying. District & Borough councils had been consulted as to their own membership of the Board.
- 7.3 AE noted that any substitutes for the Unison representative would have been fully trained.
- 7.4 The Chair summed-up by stating that there were clearly different opinions on the Board on the issue of substitutes. However, Board members are unanimous in being unhappy that this matter should be left to the Board's discretion. He therefore requested that a report be submitted to the next meeting of the ESCC Governance Committee asking that the rules on substitutes be clarified.
- 7.5 **RESOLVED** – that the ESCC Governance committee be asked to clarify whether or not substitute members should be permitted on the Pension Board rather than leaving the matter to the Board's discretion.

(The meeting ended at 12.15 pm)