PENSION BOARD

MINUTES of a meeting of the Pension Board held at CC2, County Hall, Lewes on 4 February 2016.

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

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

1 MINUTES

1.1 The draft minutes of the 03 November 2015 meeting were agreed.

2 APOLOGIES FOR ABSENCE

2.1 Apologies were received from Tony Warren.

3 DISCLOSURE OF INTERESTS

3.1 There were none.

4 PENSION COMMITTEE AGENDA

4.1 Officers noted that **Item 9: Pensions Administration System – Business Case** was listed on the Pension Committee agenda as to follow. This report, which includes commercially confidential material, will be circulated amongst Pension Board members in advance of the 08 February Pension Committee meeting.

4.2 With reference to **Item 6: Fund Performance Schroder (Property)**, DZ asked why Schroder's performance target is set so low above the benchmark. DZ also queried Schroder's own estimate of its performance to date this year as showing "strong absolute returns" when returns appear to be much lower than in previous years, and when Schroders has actually underperformed against its benchmark over the past three months. It was agreed to bring this to the attention of the Pension Committee.

4.3 Members discussed **Item 10: LGPS Investment Pooling**. The Chair noted that the emerging landscape of pooled funds is now looking quite coherent. The main issue for East Sussex will be to identify the pooling option that gives us the strongest voice. Hence governance arrangements will be a key factor. OO agreed that having the opportunity to influence the development of the pool will be key, and a significant issue in making the decision to join a pool is whether governance arrangements have or have not already been determined. With the exception of the Welsh pool it is unlikely that the Government will permit any pool with less than £25 billion invested to proceed, so we need to be sure that the pool we join can exceed this floor.

4.4 In response to a question from DZ about the likely scale of savings from pooling, OO told members that officers were working on this and should have some estimates by summer 2016. MK cautioned members not to expect too much here: even if pooling will eventually produce savings, these are likely to be in the long term (10 years plus). This is because the investments most readily pooled (e.g. passive) already have low management fees, so there will be little opportunity to make savings. High fee investment vehicles will take much longer to pool and there is no certainty that fund managers for whom the LGPS is not a particularly significant client will acquiesce to demands for their fees to be lowered for larger scale LGPS investments. Some types of investment (e.g. private equity, property) will take time to pool because of the illiquidity of the assets involved.

4.5 BR and AE queried whether there were risks involved in pooling with pension funds that are relatively under-funded. MK noted that the plan is to pool investments to realise economies of scale, but not to merge funds, so individual funds will retain their own risks. Neither is there an obvious link between a fund's deficit and the competence of its management: relative underfunding is likely to be a consequence of investment decisions taken many years ago (such as taking a 'holiday' from employer contributions in the 1980s) rather than recent actions. Of much greater importance is pooling with like-minded funds, and it is reassuring that the Access partners already employ many of the same investment managers as ES.

4.6 DZ asked what the response from the fund management industry had been to the pooling plans. MK replied that it seems likely that many investment managers will resist appreciably lowering their fees, as they have generally successfully resisted attempts by individual funds to negotiate lower rates. Some niche funds may choose to disengage from the LGPS market rather than engaging with pooled funds.

4.7 Members discussed **Item 12: Pension Fund Budget Report – 2016/17**. OO explained that there had been an under-spend on Guaranteed Minimum Pension (GMP) reconciliation in 15/16 due to this work being delayed. The under-spend will be carried forward to undertake this work in future years.

4.8 In response to a query from BR, OO explained that the uplift in actuarial fees for 16/17 reflects the additional cost of the triennial valuation. The fee negotiated for the coming valuation is slightly lower than the amount paid three years ago.

4.9 In response to a query from the Chair, OO told members that there was a zero cost estimate for work on fund pooling in 15/16 because the expenditure to date had mainly been in terms of officer time. The estimate for costs over the next three years is based on the per-authority costs of establishing the London Common Investment Vehicle.

4.10 OO told the Board that the projected reduction on investment manager fees in 16/17 was mainly due to the decision to cease to contract with Lazard. The funds formerly managed by Lazard are now invested in less expensive vehicles (e.g. 50% are in passive). If the stock market performs relatively poorly over the next 12 months, this will reduce the fees paid.

4.11 Members considered **Item 13: Environmental, Social, Governance and Investment Strategy**. BR noted that there had been a lively discussion of this issue at the recent LAPF conference in Bournemouth. DZ added that there was a good deal of public interest in the issue of ethical investment and a potential reputational risk here for the county council. AE agreed, noting that fracking was a particular issue for scheme members in Brighton & Hove. KA noted that the fund position was a difficult one to communicate in a way that would reassure concerned scheme members. However, all members agreed that fund's position on this was a reasonable one given the fiduciary duty to maximise the income from investments.

5 <u>POLICIES OF THE ADMINISTERING AUTHORITY</u>

5.1 This report was noted.

6 EAST SUSSEX PENSION FUND - CIPFA BENCHMARKING REPORT

6.1 JB told members that the CIPFA report was the only national benchmarking of LGPS administration services. Only 42 funds chose to take part in this year’s exercise. This is probably a self-selecting sample, with poorly performing services unlikely to volunteer. However, this does mean that we can compare our performance against the best of our peers.

7 REVISED COMMUNICATIONS POLICY STATEMENT 2015/16

7.1 OO told members that we are required to publish and annually revise a Communications Policy Statement. MK noted that it was the responsibility of employers to disseminate pensions information to their employees.

7.2 The Chair pointed out that it was important that employers understood the role played by the Pension Board. OO agreed, noting that a message had been sent to all employers explaining the function of the Pension Board. MK added that there had also been information presented at the recent Employers’ Forum.

8 OFFICERS' REPORT - BUSINESS OPERATIONS

8.1 JB told members that four new members of staff have now been recruited, although they have no experience of pensions administration so they will require training. There has been a modest improvement in performance recently, although areas of concern still remain particularly around the calculation of spouses’ benefits. Any transfer value delays are unlikely to have any material impact.

8.2 The Chair noted that it was important for reputational reasons that we hit our targets here. He also queried whether taking on the administration of additional funds might impact on performance. JB explained that there will be no detrimental impact on performance as the East Sussex team will continue to administer only ES members.

8.3 Members discussed apprenticeships and JB agreed to investigate the feasibility of employing an apprentice.

8.4 JB told members that all 2015 benefits statements have now been issued. This is later than the Government’s deadline, but the statements had been well received. For next year the statements will be issued on time provided that all employers supply information in a timely manner. MK added that there is ongoing work with the employer who failed to provide information for this year’s statement.

8.5 JB told members that the national take-up of the LGPS was estimated to be around 75%. DZ noted that this figure seemed low given that employees are auto-enrolled into the scheme, other than casual staff who are required to opt-in.

9 OFFICERS' REPORT - GENERAL UPDATE

9.1 OO briefed members on current cash flow forecasts; national developments; the time-line for the triennial valuation (Pension Board will have sight of the valuation discussion document at its Sep 2016 meeting, with the valuation results available in Nov/ Dec 16); changes to fund membership; and Government plans to recover exit payments from senior officers who move to alternative public sector posts.

9.2 WN outlined progress on GMP reconciliation, noting that independent consultants ITM have recently completed a high-level analysis of the situation. In addition we will need a more detailed evaluation from ITM. There is the potential for there to be a significant risk to the fund here (estimated to be as much as £1.5B at a national level), although we are not yet in a position to quantify this. It is unclear whether LGPS or HRMC have underpaid in the past, but it is clear that LGPS will be solely accountable for this risk.

9.3 In response to a query about the risk of people opting to take their pensions at 55, JB explained that the risk was negligible as few people were likely to retire at this point given the financial disincentive to do so. MK added that there may be more of an impact in coming years of people taking their pensions at 62 or 63 rather than wait until the statutory retirement age of 67.

10 PENSION BOARD FORWARD PLAN 2015/16

10.1 In response to a query from the Chair, MK told members that complaints that have been considered by the ombudsman would be reported to Pension Board. However, there has been no complaint in the past two years that has progressed further than Stage 2.

10.2 In response to a query as to whether Pension Board member travel expenses for training courses would be funded by the LGPS, MK agreed to check this with the Pension Committee at the next (08 Feb) Committee meeting.

The Board was reminded of the first joint training session scheduled to take place on ***Monday 22nd February 2016***, and the second session to take place in April 2016.

11 ANY OTHER BUSINESS

The Board was reminded of the first joint training session scheduled to take place on ***Monday 22nd February 2016***, and the second session to take place in April 2016.

(The meeting ended at 12pm)

RICHARD HARBORD
Chair