



Gloucestershire

COUNTY COUNCIL

PENSION COMMITTEE

10.00 am

FRIDAY 29 JANUARY 2021

MEETING PAPERS



PENSION COMMITTEE

TIME: 10.00 am
DATE: Friday 29 January 2021
VENUE: Remote Meeting

A G E N D A

| ITEM | TOPIC | CONTACT |
|------|---|---------------------|
| 1. | Apologies | Andrea Griffiths |
| 2. | Declarations of Interest - Members of the Committee are invited to declare any financial or pecuniary interest related to specific matters on the agenda. | Andrea Griffiths |
| 3. | Public Questions - To answer any written questions about matters that are within the powers and duties of the Committee. The closing date/time for the receipt of questions is 10.00am on 22nd January 2021. | Andrea Griffiths |
| 4. | Members' Questions - To answer any written members' questions. The closing date/time for the receipt of questions is 10.00am on 22nd January 2021. | Andrea Griffiths |
| 5. | Minutes - (Pages 1 - 8) To approve as a correct record the Public Minutes of the meeting held on 4 th December 2020. | Andrea Griffiths |
| 6. | Review of Objectives for the Independent Adviser (Pages 9 - 12) To approve the revised strategic objectives for the Independent Adviser. | Matthew Trebilcock |
| 7. | Exclusion of the press and public | Cllr Ray Theodoulou |

Resolved

That in accordance with Section 100 A (4) of the Local Government Act 1972 the public be excluded from the meeting for the following agenda items, because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraph 3 of Part 1 of Schedule 12 A to the Act and the

public interest in withholding the information outweighs the public interest in disclosing the information to the public.

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| 8. | Exempt Minutes (Pages 13 - 22) To approve as a correct record the exempt minutes of the meetings held on 4 th December 2020. | Andrea Griffiths |
| 9. | Strategic Equity Allocation Review (Pages 23 - 38) To approve the revised strategic equity allocations. | Matthew Trebilcock |
| 10. | Pension Fund Operational Resource Review (Pages 39 - 52) To approve the proposed future team structures and resultant costs. | Matthew Trebilcock |

NOTES

- (a) **MEMBERSHIP** – Councillors Cllr Rachel Smith, Cllr Colin Hay, Cllr Shaun Parsons, Cllr Lynden Stowe, Cllr Ray Theodoulou and Cllr David Brown

COOPTEES - Peter Clark and Cllr David Gray

- (b) **DECLARATIONS OF INTEREST** – Members requiring advice or clarification about whether to make a declaration of interest are invited to contact the Monitoring Officer: Rob Ayliffee /e-mail: rob.ayliffe@gloucestershire.gov.uk prior to the commencement of the meeting.



PENSION COMMITTEE

PUBLIC MINUTES of the meeting of the Pension Committee held on Friday 4 December 2020 commencing at 10.00 am.

**PRESENT
MEMBERSHIP:**

| | |
|--------------------|---------------------|
| Cllr Rachel Smith | Cllr Ray Theodoulou |
| Cllr Colin Hay | Cllr David Brown |
| Cllr Shaun Parsons | Peter Clark |
| Cllr Lynden Stowe | Cllr David Gray |

In Attendance: Matthew Trebilcock (Head of Pensions), Paul Blacker (Director of Finance), John Arthur (Independent Advisor) and Andrea Griffiths

30. DECLARATIONS OF INTEREST -

No declarations of interest were made.

31. PUBLIC QUESTIONS -

No public questions were received.

32. MEMBERS' QUESTIONS -

No Members' questions were received.

33. ANNOUNCEMENTS

The Chairman welcomed Matthew Trebilcock, as the newly appointed Head of Pensions to the meeting. In addition, the Chairman wished to thank Paul Blacker, Director of Finance for covering the service area and supporting the Committee in the interim period.

34. MINUTES -

The minutes of the meeting held on the 25th September 2020 were approved as a correct record and signed by the Chairperson.

Resolved

That the public minutes of the meeting held on the 25th September 2020 be approved as a correct record.

35. PENSION FUND ANNUAL REPORT

The Annual Report for 2019/20 was prepared in accordance with the Local Government Pension Scheme (LGPS) regulations and included all of the Fund's strategy and policy documents, as well as the Fund's audited accounts and performance details.

The annual report contained a summary section on pages 22 to 25 of the report pack, which provided a short graphical summary of the Fund, which could be read as a standalone summary.

The External Auditors report on the statement of accounts considered by the Audit & Governance Committee on 30 October 2020 stated that the accounts gave a true and fair view of the financial transactions of the Pension Fund.

There was a single amendment made to the annual report issued as part of the reporting pack. On page 97 the table label 'Creditors' has been replaced with 'Payments in Advance' for consistency purposes. The annual report should also receive an external auditor's opinion on the pension fund's statement of accounts, which is a 'consistent with' opinion referring to that given on the administering authority's statement of accounts.

The Local Government Pension Scheme Regulations 2013 require an administering authority to publish a pension fund annual report on or before 1st December together with the consistency statement from the auditor, it was confirmed that these documents were published on the 1 December 2020, thereby meeting the regulations.

It was noted that the Authority would not be producing a printed copy of the annual report this year, but would rely on the electronic version only.

The Head of the Pension Fund wished to thank the pensions accounting team led by Maria Saunders, in delivering the Annual Report within the regulation timelines. In response to a question, the Independent Advisor confirmed that he was content with the Annual Report.

During the discussion, it was confirmed that the Funds current responsible investment approach was now included within the report. The Head of Pensions explained that the regulations would evolve especially in relation to climate related financial disclosures.

The Head of Pensions explained he intended to work closely with Brunel and all fellow partner Funds within the pool, in a collaborative approach to ensure continued compliance with regulations as they moved forward.

The Committee questioned the actuarial fees on page 39 of the report, the Director of Finance confirmed the figures were in line with the expectation.

In response to a question relating to investment management expenses, it was noted that there was a large fluctuation between the 2018/19 and 2019/20 costs. The Head of Pensions drew the Committees attention to the accompanying note which provided an explanation for the increase, such as a move from passive to active management, however a more detailed cost analysis would be undertaken and this information would be circulated via email to members of the Committee.

Members wished to know if there were any best practice examples other authorities used in their Annual Report that Gloucestershire could adopt. It was explained that due to regulations and guidance annual reports were inherently replicated across all of the 89 LGPS funds. This ensured there was a consistent and transparent approach across all LGPS Funds. It was recognised that the summary pages were helpful to the reader and not all Funds replicated that. The Committee was advised that Gloucestershire's report was deemed to be high quality and very well prepared.

During the discussion, members wished to know if the valuations of assets had been given sufficient attention within the report, as they felt this was an important point to highlight. The Head of Pensions explained the explanatory notes, as required, surrounding the impact of the Covid pandemic were included in the report.

Members were advised that a number of asset valuations were reviewed by the auditors, such as property investments, as these were hard to value investments. The Director of Finance informed the Committee that other investments, were valued by the market on the 31st March 2020. Members recognised that significant amounts of market value had been lost at the beginning of the pandemic but this had recovered considerably, especially in equities.

Members questioned the figures on pages 48 and 49 of the report, which related to the costs per scheme member. The total cost per member had gone up 33% over a two-year period. During the discussion, it was noted that the figures on page 49 were available for 2018/19 but appeared to be missing for 2019/20. The Head of Pensions agreed to take this point away and investigate further and would report back to members in due course.

The Director of Finance pointed out that the Funds total cost per scheme member was £150.00 compared to the national average of £222.27 in 2018/19. Based on this information he felt that Gloucestershire provided good value for money. It was suggested that perhaps a footnote be included in the future to highlight this point.

Resolved

The Committee noted the Pension Fund financial statements and the 2019/20 Annual Report.

That the Head of Pension would investigate the correlation of the tables on page 48 & 49 and circulate this information to Members in due course.

36. RISK REGISTER

The Head of Pensions introduced the risk register explaining that the risk register was a live document and therefore it was important for it to reflect the discussion carried out by the committee.

Members were informed that since the risk register was last considered by the Pension Committee in September 2020, a number of changes had been made, these were highlighted in yellow and the new narrative was shown in bold red, in the risk register.

It was reiterated that in September the residual risk ratings for risks F1, F2 and F4 relating to the Pension Fund investment strategy and deficit position, were increased due to the impact of COVID- 19. Members noted these risks remained at the increased level.

The Head of Pensions was pleased to report that the G5 Risk had been reduced as a result of his appointment. However, this remained a medium risk due to remaining vacancies in the accounting and investment team.

Members were advised that Risks A/R 1.1 & 1.2 had also been increased from a low to a medium risk. It was noted that the Pensions Committee had previously agreed an increase in resource for the Pensions Administration Team in response to the introduction of the 2014 CARE scheme. However, since the launch of the 2014 CARE scheme, the administration team now faced dealing with McCloud ruling, the 95k cap, as well as an increased number of employers in the Fund. It was explained that Government were launching a pension's dashboard initiative, which would also result in additional workload for the team.

The Committee were reminded that Hymans outlined the potential impact of these issues on the administration function in September 2020. At that meeting, it was also requested that a review of resourcing requirements should be undertaken by the Head of Pensions. It was noted these risks had been increased until this review had been undertaken. It was proposed that this review would be brought back to Committee in January 2021, the Committee welcomed this approach.

A member raised the issue of life expectancy and whether employers would try and promote a late retirement culture, given that life expectancy was decreasing. Members also wondered if there was any idea nationally about the impacts of Covid long term, given the number of people who could potential contract the virus before the vaccine is widely available.

The Head of Pensions explained that Club Vita would be undertaking an analysis in terms of life expectancy. He expected that would be reflected in the assumptions that contribute to the next valuation in 2022. It was suggested that some good analysis could be provided that was bespoke to the members of the

Gloucestershire Pension Fund. The Head of Pensions agreed to take this point away and review the data available and an update would be provided at a future meeting or via a briefing note.

In response to a question, it was noted that the Fund had previously purchased Fund level ill-health insurance, so in cases of ill health retirement the Fund and the Employers covered under the insurance were fairly well protected.

During the discussion, members referred to the 95K cap and whose responsibility was it to communicate the impact of this ruling. The Committee were advised that it was the employer's responsibility to relay this information and not the Pension Fund.

It was explained that the Pensions Administration Manager and his team had been actively providing information to employers on a regular basis regarding their responsibilities to the 95k cap. The Local Government Association had been issuing a lot of information and were actively promoting webinars for employers.

Members also remarked that the costs involved with Brunel needed to be closely monitored, given the fees involved in the transition and ongoing management of the investments. It was also noted that as part of the strategic move from passive to active management this would incur higher fees, however, you would expect greater returns on the investment. The Head of Pension offered to review the risk register to ensure this was captured and was specific on the Funds risk on value for money and also how we were assessing that value for money was achieved moving forward.

Resolved

That the Committee noted the risk register, and supported the inclusion of the the increased and proposed review in relation to risks A/R 1.1 & 1.2. Including the reduction in residual risk in relation to risk G5 and the continued increased position relating to residual risk ratings for risks F1, F2 & F4.

That it was agreed that a meeting of the Pension Committee be scheduled in January to discuss resourcing requirements in further detail.

37. MARKET VALUATIONS & QUARTERLY PERFORMANCE

The Head of Pensions presented an overview of market valuations and an update on the performance of the Fund , as at 30 September 2020.

Members noted that by the end of Quarter 3 the market value of the fund grown by £271m in the quarter, to £2.649bn. It was reported that performance for the fund for the quarter was 2.6%, and the benchmark was 1.5%, therefore the fund had outperformed the benchmark. It was reported in terms of the 3 yearly annualised returns, the fund was 0.2% behind benchmark at 5%.

Minutes subject to their acceptance as a correct record at the next meeting

During the discussion, it was noted that during the period to 30 September, the transition to the Brunel Diversifying Returns Fund (DRF) and Sustainable Equity portfolios had commenced.

Members were advised there had been a strong performance from the Global High Alpha portfolio at 19.2% since its inception in November 2019, 13.2% ahead of the benchmark. In response to a question, it was noted that the key driver of this performance was one of the underlying fund managers holding a highly concentrated portfolio.

The Committee were informed that the Fund was holding a higher level of cash than usual, this was due to the fact that some employers had paid their secondary rate contributions in April 2020 in advance.

The Committee felt the Brunel quarterly performance report could be simplified to a two-page summary, which focused on most the salient points. The Head of Pensions explained he would be working with Brunel to improve the performance report.

It was noted that the Independent Advisor would look at the performance in more detail during his report

Resolved

That the Committee noted the market value and quarterly performance of the Gloucestershire Pension Fund as at 30th September 2020

38. EXCLUSION OF THE PRESS AND PUBLIC

Resolved

That in accordance with Section 100 A (4) of the Local Government Act 1972 the public be excluded from the meeting for the following agenda items, because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraph 3 of Part 1 of Schedule 12 A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

39. EXEMPT MINUTES

The exempt minutes of the meeting held on the 25TH September 2020 were approved as a correct record and signed by the Chairman.

Resolved

That the exempt minutes of the meeting held on the 25th September 2020 be approved as a correct record.

Minutes subject to their acceptance as a correct record at the next meeting

40. ADMISSIONS AGREEMENTS

The Head of the Pensions Fund presented the report in detail.

Resolved

That the Committee approved the Officer's recommendation.

41. INDEPENDENT ADVISOR'S REPORT

Independent Advisor, John Arthur, provided members with an update on current investments. The Committee were referred to the detailed Performance and Executive Summaries contained within the report.

Resolved

That the report be noted and that Committee approved the Officer's recommendations

CHAIRMAN

Meeting concluded at 12.12 pm

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Agenda Item 6

**Pension Committee 29
January 2021**

Review of Objectives for the Independent Adviser

Report of the Head of Pensions

Introduction

On 14 September 2017, in exercise of its powers under sections 131 and 133 of the Enterprise Act 2002 (the Act) as provided for by section 234I of the Financial Services and Markets Act 2000, the Financial Conduct Authority (FCA) made an ordinary reference to the Chair of the Competition and Markets Authority (CMA) for the constitution of a group to conduct a market investigation of the supply and acquisition of investment consultancy services and fiduciary management services to and by institutional investors and employers in the UK.

On 12 December 2018, the CMA published its report on the market investigation reference entitled Investment Consultants Market Investigation Final Report (the report).

In the report, the CMA decided (among other matters) that:

(a) features of the investment consultancy market, individually and in any combination, restrict or distort competition in connection with the supply and acquisition of investment consultancy services in the UK to and by pension scheme trustees and thereby have an adverse effect on competition (AEC) in respect of investment consultancy services;

(b) features of the fiduciary management market, individually and in any combination, prevent, restrict or distort competition in connection with the supply and acquisition of fiduciary management services in the UK to and by pension scheme trustees and thereby have an AEC in respect of fiduciary management services; and

(c) the CMA should take action to remedy, mitigate or prevent each AEC and the detrimental effect on customers that may be expected to result from each AEC.

On 11 February 2019, in accordance with section 165 of, and paragraph 2(1)(a) of Schedule 10 to, the Act, the CMA published a Notice of its intention to make an Order and the proposed Order as part of a package of remedies to remedy, mitigate or prevent the AECs and resulting customer detriment which it had found in the report. In accordance with paragraph 2(1)(b) of Schedule 10 to the Act, the CMA has considered representations made in accordance with the Notice and not withdrawn.

On 5 April 2019, this Order was notified to the European Commission pursuant to Article 24(12) Directive 2014/65/EU (on markets in financial instruments) in respect of additional requirements intended to be imposed by the Order and the two-month period under that Article for the European Commission to provide its opinion on the proportionality of and justification for the additional requirements has concluded.

Impact on the Pension Fund

Part 7 of the Order, 'Investment Consultancy Services – objective setting', prohibited Pension Scheme Trustees (whose definition in the Order included LGPS Committees) from entering into a contract with an Investment Consultancy Provider for the provision of Investment Consultancy Services or from continuing to obtain Investment Consultancy Services from an Investment Consultancy Provider unless the Pension Scheme Trustees had set Strategic Objectives for the Investment Consultancy Provider.

Under the Order, and considering the accompanying explanatory note issued by the CMA, the objectives were required to be:

- 'closely linked' to the Fund's investment objectives
- reviewed at least every three years and after a significant change to the investment strategy or objectives
- established no later than 10 December 2019 (i.e. 6 months following the date of the final Order published by the CMA) or prior to appointment of a new investment consultant.

As the Pension Fund's contract with MJ Hudson Investment Advisers Limited for the services of an Independent Adviser (IA) fell under the definition of the provision of Investment Consultancy Services under the Order, objectives for the IA were agreed as the services as defined in schedule 1 of the Services Agreement, and therefore, more operational in nature.

As required by Part 9 of the Order, the Fund is currently required to provide an annual compliance statement and certification of that compliance, based upon the previously set objectives. This compliance statement, completed by the Chairman of the Pension Committee and certification, provided by the Head of Pensions, was submitted to the CMA on 7 January 2021.

Review of IA Objectives

As part of the above process, a review has been undertaken by the Head of Pensions and the following objectives are proposed to be included in the IA contract alongside the already agreed services defined under schedule 1, as strategic objectives:

Provide strategic investment advice focused on:

(a) delivering the Pension Fund's target of achieving and maintaining a 100% funding level, balancing risk and return in the achievement of this objective and having regard to the Fund's Investment Strategy Statement

(b) ensuring there are sufficient liquid resources available to meet the Fund's current liabilities and investment commitments as they fall due

(c) achieving the target investment return as set out in the Fund's Investment Strategy Statement, as amended from time to time.

As part of the annual review of the IA, the objectives will be reviewed for appropriateness and performance against these will be assessed. These objectives will now form the basis of compliance with the Part 7 of the Order.

Recommendation

The Committee are asked to agree the revised strategic objectives for the IA as set out in this report, for inclusion in the IA services agreement.

Contact Officer

Matthew Trebilcock – Head of Pensions (01452 328920)

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Agenda Item 9

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