

Pension Board
Minutes of the meeting held on Thursday 20 April 2017 in Room F10, the Town Hall, Katharine Street, Croydon, CR0 1NX

DRAFT

Present: Mr Michael Ellsmore (Chair);

Employer Representatives:
Councillor Humayun Kabir
Mr Richard Elliott

Employee Representatives:
Mr David Whickman
Ms Nana Jackson-Ampaw
Mrs Teresa Fritz

Reserve Members:
Councillor Maggie Mansell

Also present: Nigel Cook, Head of Pensions and Treasury; Freda Townsend, Governance And Compliance Manager; Fahar Rehman, Governance and Compliance Officer; Dave Simson, Pensions Admin Manager.

Apologies: Apologies were received from Nana Jackson-Ampaw. It was also noted that Jolyon Roberts had resigned from the Board and arrangements were being made to appoint a replacement.

A1 Minutes

The Board **RESOLVED** to approve the Part A minutes of the last meeting as a correct record.

A2 Disclosure of Interest

There were none.

A3 Urgent Business (if any)

There was no urgent business

A4 Exempt Items

The allocation of business between Part A and Part B of the agenda

was approved as stated.

A5 Pension Committee Forward Plan

The meeting was preceded by a training session hosted by the Pensions Regulator. At the conclusion of the training, the Chair commenced the formal part of the agenda.

The Chair introduced the item by inviting Board members to identify any areas of the Committee forward plan that should be considered by the Board.

The following items were identified:

- Risk Register
- Breaches of the Law
- Administration Strategy

The Board also alerted officers that the LGPS Scheme Advisory Board had announced that a template for disclosing asset manager fees and costs would be forthcoming and this should be considered by the Board.

The Head of Pensions and Treasury added that work on the Investment Strategy Statement had required a significant amount of effort. The current draft contained the necessary information however more work was required, particularly around the ethical investment aspect, which required further detail. The Board's guidance on the level of detail required was welcomed.

In response to a question from the Board, the Head of Pensions and Treasury stated that the strategies of other authorities had now been published and officers were looking at these for comparison and best practice.

The Board **NOTED** the contents of the report.

A6 Governance Policy and Compliance Statement

The Chair welcomed the policy and noted that it had been to the Pension Committee. The Chair requested an update on the situation regarding voting rights for some members of the Committee.

The Head of Pensions and Treasury informed the Board that the Committee had discussed the possibility of granting voting rights to the union representative and two pensioner representatives that sat on the Committee. The Chair and Vice-Chair of the Committee were

currently considering a proposal that the three representatives received one vote to be shared between them.

The Chair stated that the policy was a good document that reflected well on the scheme manager.

The Board **NOTED** the contents of the report.

A7

Update on the London CIV

The Head of Pensions and Treasury updated the Board on the latest developments with the London Collective Investment Vehicle (CIV). There had been developments with the sub-funds in the CIV which were looking to formulate funds based on predicted needs, moving beyond overlapping borough investments. However the Financial Conduct Authority (FCA) had placed limits on the number of sub-funds that could be set up per year, which was slowing down the progress of new CIV sub-funds. The sub-funds that were being considered by the CIV were not within the ambit of Croydon's investment strategy at the present time.

In response to questions from the Board the following was stated:

- The Croydon investments in Legal and General were not on the list of effected funds that would fall under the new precept and the fees were low.
- The Secretary of State had powers to take over funds which were deemed to be failing. However, in relation to pooling there had been mixed messages from central government regarding the requirements to pool. In any event, it was stated that it would take an extreme case for the Secretary of State's new powers to be used.
- One of the key aims of the CIV was to allow for more leverage in obtaining expertise on investment decision-making. The CIV had an FCA-authorized technical team who provided high quality advice for local authorities' funds. In addition, there was an investment advisory committee comprised of senior officers from the London authorities. Academic research supported the consideration that the more expertise invested in the decision making process, the better the returns gained.

The Board **NOTED** the contents of the report.

A8

MiFID II

The Head of Pensions and Treasury introduced the item, stating that the Markets in Financial Instruments Directive (MiFID II) was a European Union directive that required fund manager to evaluate potential investors through a three stage test: (i) the size of the fund, (ii) the experience of the fund's staff, and (iii) the number of transactions made by the fund. The Croydon would pass the threshold for the first test but fail to meet the two other limbs, and this would result in the Fund being classed as a retail investor. Some fund managers had already indicated that they would stop trading with Croydon Pension Fund if it were classed as such. There were exceptionally difficult circumstances forecast as the matter stood at that time. However, there was a consensus that a sensible solution would be delivered and it was clear that the government had begun to understand the scale of the impact the directive would have.

In response to a question from the Board, the Head of Pensions and Treasury stated that the Investment Managers Association were lobbying on the directive to the same concerns as those held by the Fund; investment managers had a considerable financial stake in the outcomes of the directive as it stood.

The Board discussed the origins of the directive and noted that it stemmed from concerns that emanated from continental Europe and that the UK's financial regulations were considerably more advanced than most other EU members states. The directive was aimed primarily at protecting consumers in member states with far less regulatory protection than the UK. There was a general consensus that good sense would prevail and a workable version of the directive would be implemented that avoided the issue of re-classification.

The Board **NOTED** the contents of the report.

A9

Procurement of the Scheme Actuary

The Head of Pensions and Treasury introduced the item and informed the Board that the procurement process had been used through the framework. The contract had been divided into three lots, with Hymans Robertson awarded lots one and two (valuation and contribution rates) and lot three was awarded to Aon Hewitt (governance) in what had been a very competitive process.

The Board **NOTED** the contents of the report.

A10

Admin KPIs

The Pensions Admin Manager described to the Board in detail the software and processes officers used to manage data. It was stated that the software worked reasonably well but there were still outstanding issues that the software provider were aware of and were addressing. There had been significant improvement in the process in the previous three months.

In response to questions from the Board the following was stated:

- The key issue was that the Fund relied on employers to inform officers when new staff were taken on or staff had left. The roll-out of iconnect would address this, with monthly updates generated on employee details to ensure the data held by Fund officers was up-to-date.
- Valuation of individual pension benefits also created difficulties as it required investigation, in some cases, of historic records for long-standing scheme members. This highlighted the importance of employers adopting the iconnect system; it would save Fund officers a significant amount of time and would ensure records are kept up-to-date and accurate.

The Compliance and Governance Manager, in response to questions from the Board, stated the following:

- There was a significant resource strain on the department for collating the data. Accessing historic data for schools was made further complex through the transitions from LEA-status to independent academy status.
- Automatic enrolment had doubled the number of active members in the Fund, and additional resources was needed to meet that significant increase in workload.

The Board considered the difficulties surrounding the issue, in particular that schools faced significant pressures and pensions administration would not necessarily be a high priority. The Board requested a progress update for the following meeting in July 2017.

The Board **NOTED** the contents of the report.

A11

Agenda papers of the last Pension Committee

The Head of Pensions and Treasury drew the Board's attention to the risk register item. The register flagged risks that were rated as 12 or higher, a value calculated by multiplying the likelihood of risk with

the level of risk.

The Board were also directed to the Funding Strategy Statement which had been completed with contribution rates set for the following three years. It was noted that some academies had seen their contribution rates go down, which was welcomed. In response to a question from the Board, it was stated that at the time of publication of the statement, there were a few employers who had not finalised their valuation, but these negotiations had since been concluded and the final rates published on the Fund website.

The Board raised a concern over the performance in the Property PRS asset category over the previous quarter. The Head of Pensions and Treasury responded that the category was for top-end residential properties – with high initial investment but significant returns following, expected to correspond to a “J-curve”.

The Board **NOTED** the contents of the Part A Pension Committee papers.

A12

[The following motion is to be moved and seconded as the “camera resolution” where it is proposed to move into part B of a meeting]

Teresa Fritz proposed, and Councillor Kabir seconded, the motion to move remainder of the meeting into Part B and thereby exclude the press and public.

The Board **RESOLVED** to move the remainder of the meeting into Part B and exclude the press and public.

The meeting finished at 4.09pm