



City and County of Swansea

Minutes of the Pension Fund Committee

Guildhall, Swansea

Thursday, 11 July 2019 at 10.00 am

Present: Councillor C E Lloyd (Chair) Presided

Councillor(s)

P Downing
W G Thomas

Councillor(s)

M B Lewis
J P Curtice

Councillor(s)

D G Sullivan

Advisors

N Jellema
N Mills

Advisor - Hymans Robertson
Independent Investment Advisor

Officer(s)

Karen Cobb
Jeremy Parkhouse
Jeffrey Dong

Senior Accountant
Democratic Services Officer
Interim Deputy Chief Finance Officer and Deputy S151
Officer.

Stephanie Williams

Principal Lawyer

Apologies for Absence

Councillor P Rees

1 Election of Vice Chair for the 2019-2020 Municipal Year.

Resolved that Councillor P Downing be elected Vice Chair for the 2019-2020 Municipal Year.

2 Disclosures of Personal and Prejudicial Interests.

In accordance with the Code of Conduct adopted by the City & County of Swansea, the following interests were declared:

Councillor J P Curtice - agenda as a whole – member of the Local Government Pension Scheme - personal.

Councillor P Downing - agenda as a whole - my brother is a member of the Local Government Pension Scheme – personal.

Councillor M B Lewis - agenda as a whole – member of the Local Government Pension Scheme - personal.

Councillor C E Lloyd – agenda as a whole – Both myself and my father are members of the Local Government Pension Scheme - personal.

Councillor P Rees - agenda as a whole – Daughter-In-Law is a member of the Local Government Pension Scheme - personal.

Councillor D G Sullivan - agenda as a whole – Daughter-In-Law is a member of the Local Government Pension Scheme and I am in receipt of a pension administered by the former Dyfed Council - personal.

Councillor W G Thomas - agenda as a whole – member of the Local Government Pension Scheme - personal.

Officers:

K Cobb – Agenda as a whole – Member of Local Government Pension Scheme – personal.

J Dong – Agenda as a whole – Member of Local Government Pension Scheme – personal.

J Parkhouse – Agenda as a whole – Member of Local Government Pension Scheme – personal and Minute No. 6 – Draft Statement of Accounts 2018/19 – Clerk to Llanrhidian Higher Community Council – personal.

S Williams – Agenda as a whole – Member of Local Government Pension Scheme – personal.

3 Minutes.

Resolved that the Minutes of the Pension Fund Committee meeting held on 14 March 2019 be signed and approved as a correct record.

4 Low Carbon Index Tracking Fund - Update.

The Interim Section 151 Officer presented a 'for information' report which updated the Committee on the low carbon fund transition component of the Environmental, Social, Governance (ESG) Policy.

It was added that the Committee had taken a number of steps to understand the impact of ESG issues on the Fund and these were outlined in the report.

It was outlined that as part of the Fund's work, the Committee commissioned MSCI to undertake an analysis of the portfolio's carbon exposure. MSCI had information on each global stocks' carbon related exposure and was able to compare the carbon exposure of the Fund's holdings with a range of reference benchmarks. The results of the study indicated that the current portfolio was 9% underweight carbon assets. The Committee agreed to target a 50% underweight position by 2022 in its revised ESG Policy and the most operationally efficient way to start to reach its target was via a low carbon passive index. The Pension Fund Committee previously approved the transition of its approximately £0.5bn Blackrock market cap weighted index tracking equity assets into the Blackrock Low Carbon Index tracking fund, which

would go a considerable way in meeting its commitment to reduce the fund's carbon footprint by 50% by 2022. Transition of those assets commenced on the 3 July 2019 and would be completely transitioned by the end of the month.

In addition, at the Swansea Council meeting held on 27 June 2019, a notice of motion declaring a climate emergency was approved. Within the notice of motion the ground breaking work and commitment of the Pension Fund Committee to reduce its carbon footprint was referenced. Appendix 1 of the report provided the Environmental, Social, Governance Policy which had been formulated as a result of the initial training, further information gathering, receiving presentations from interest groups and subsequent Committee discussion and decision-making.

The Committee commented upon the positive progress made and the ambition to reduce 50% of the Fund's carbon footprint by 2022, whilst still ensuring appropriate investment returns for the Fund's members.

5 Wales Pension Partnership (WPP) Draft Responsible Investment Policy.

The Interim Deputy Section 151 Officer presented a report which sought approval of the Responsible Investment Policy (RI) of the Wales Pension Partnership (WPP).

It is recognised as best practice that WPP had a clearly defined RI Policy which could be implemented across its funds. It had been noted that each member fund of WPP were at different stages of their consideration of the whole ESG/RI agenda. The WPP Policy was therefore formulated with a view to not tying an individual fund to a restrictive or binding commitment. Appendix 1 contained the RI Policy of the WPP.

Resolved that the WPP RI Policy is approved.

6 2019 Audit Plan – City and County of Swansea Pension Fund.

The Interim Deputy Section 151 Officer presented the Wales Audit Office (WAO) 2019 Audit Plan which provided the proposed audit work, when it would be undertaken, how much it would cost and who would undertake it.

Appendix 1 sets out the responsibilities of the Auditor, along with those of management and those charged with governance. Exhibit 1 provided the three phases of the audit approach, Exhibit 2 outlined the risks considered significant which required special audit consideration. The proposed audit fee for this work was set out in Exhibit 3 and the timetable of the proposed audits was provided at Exhibit 5. Audit fieldwork was ongoing and a the ISA 260 outlining audit findings/recommendations would be brought to Committee in September 2019

Resolved that the contents of the report be noted.

7 Draft Statement of Accounts 2018/19.

The Interim Deputy Section 151 Officer presented a report which sought approval of the draft statement of accounts for the City & County of Swansea Pension Fund 2018/19.

It was added that the Wales Audit Office (WAO) had commenced their audit of the Pension Fund Draft Statement of Accounts 2018/19 in line with their audit plan presented to Pension Fund Committee earlier in the year. Their report will be presented to the Committee in September 2019. The Draft Statement of Accounts 2018/19 were provided at Appendix 1.

The Committee discussed the following: -

- Additional membership due to auto enrolment;
- Positive performance of the Fund;
- Reduction of equity allocation;
- Impact of the Mc Cloud judgement.

Resolved that the City & County of Swansea Pension Fund Draft Statement of Accounts 2018/19, which are subject to audit, be approved.

8 Admission Body Application - The Wallich.

The Interim Deputy Section 151 Officer presented a report which sought to approve the admission body application for The Wallich.

It was outlined that following a service review exercise by Neath Port Talbot County Borough Council (NPT CBC) undertaken previously, Tai Tarian (previously called Neath Port Talbot Homes) were appointed to manage housing services on behalf of NPTCBC. An element of that service supported those affected by homelessness had subsequently been re-tendered and The Wallich had been appointed for a 3 year term.

The Wallich, a genuine not for profit organisation with HMRC approved exempt charity status, had been providing accommodation and support services for homeless people since 1978. The contract for services commenced on the 1st July 2017 to run for 3 years.

Under the contract conditions, the current eligible workforce be transferred under TUPE arrangements from the current employer, Tai Tarian to The Wallich. In order to preserve the pension rights of the transferred staff, it was proposed that The Wallich be granted Admitted Body status to the City & County of Swansea Pension Fund. It was proposed that the admission agreement be granted on a closed scheme basis, to include only the named staff in schedule 1 of the admission agreement.

The admission agreement requires the requisite indemnity bond or sponsoring employer guarantee be secured from the sponsoring employer, Neath Port Talbot

County Borough Council. The Administering Authority shall also undertake the appropriate risk assessment of the admitted body, The Wallich.

The Committee discussed the details of the application.

Resolved that: -

- 1) The Admission Body Application of The Wallich, subject to completion of a satisfactory Admission Agreement (which recognises the start date of the contract), be approved;
- 2) The Deputy Chief Finance Officer be given delegated authority to finalise the Admission Agreement with appointed legal advisors, as outlined in the report.

9 Breaches.

The Interim Deputy Section 151 Officer presented a 'for information' report which presented any breaches which had occurred in the period in accordance with the Reporting Breaches Policy.

Appendix A provided the details of breaches that occurred since the previous Pension Fund Committee in March 2019, including a new requirement in respect of frozen refunds. The details of the breaches and the actions taken by Management were highlighted.

10 Trustee Training.

The Interim Deputy Section 151 Officer presented a report to determine an annual training programme for Trustees and Officers of the Pension Fund.

Paragraph 3.7 of the report provided the training completed in 2018/19 and outlined the proposed training for 2019/20 as follows: -

1. WPP Investment Beliefs Workshop;
2. WPP ESG Beliefs Workshop;
3. Local Government Employers (LGE) Trustee Fundamentals day 1, 2 & 3;
4. LGC Investment Summit;
5. Communications training;
6. LAPFF AGM;
7. CIPFA trustee training.

Paragraph 3.8 outlined that the determination of the training requirements for officers be delegated to the Deputy Section 151 Officer.

Noted – Councillor M B Lewis stated that he would only attend local training events.

Resolved that: -

- 1) The outline training plan in 3.7 and 3.8 be approved;
- 2) Further opportunities identified during the year be delegated to the Interim Deputy Section 151 Officer for approval.

11 MHCLG Consultations on Exit Payment Cap and Valuation Cycle / Employer Risk.

The Interim Deputy Section 151 Officer presented a report which sought retrospective approval of the response to H M Treasury (HMT) and The Ministry of Housing Communities and Local Government (MHCLG) Consultation on the Cap on Exit Payments and Valuation Cycle and Reform.

It was outlined that the Government proposed to cap exit payments in the public sector to an absolute limit of £95k and sought consultation on the regulations to implement. The draft statutory instrument and consultation response was provided at Appendix 1.

The Government's definition of an exit payment included any additional pension contributions required to enable the unreduced early access to a member's benefits when they were subject to early retirement when made redundant at aged 55 or over. To clarify, the exit payment would include redundancy (member received cash payment) and any additional pension contributions (the pension fund receives the payment). The arbitrary limit of £95k would encompass very modestly paid public sector workers who have long service and a number of variables along the way as highlighted within the proposed response.

The remainder of the response identified technical issues relating to how the 2 components of the exit payment cap needed to be assessed and dealt with, plus some of the weaknesses of the proposal. The response was approved by the Chair of the Pension Fund Committee on the 2 July 2019.

In addition, the MHCLG issued consultation on proposals to vary the current 3 year valuation cycle, proposals regarding exit payments and protecting rights of membership of employees of certain employers. The fund's appointed actuary had provided the response to the consultation which was provided at Appendix 2.

Resolved that: -

- 1) The Pension Fund Committee retrospectively approves the consultation response of the Administering Authority in respect of the cap on exit payments.
- 2) The Pension Fund Committee approves the consultation response of the fund's appointed actuary in respect of the Valuation Cycle and Reform.

12 Exclusion of the Public.

The Committee was requested to exclude the public from the meeting during consideration of the item(s) of business identified in the recommendation(s) to the report on the grounds that it / they involved the likely disclosure of exempt information as set out in the exclusion paragraph of Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007 relevant to the item(s) of business set out in the report.

The Committee considered the Public Interest Test in deciding whether to exclude the public from the meeting for the items of business where the Public Interest Test was relevant as set out in the report.

Resolved that the public be excluded for the following items of business.

(Closed Session)

13 Fund Manager's Presentation(s):

A presentation was made by Aidan Quinn, Sasha Mandich, Yacine Zerizef and William Pearce of Russell Investments.

Questions in relation to the content of the presentation were asked by the Committee and responses were provided accordingly.

The content of the presentation was noted and the Chair thanked the Fund Managers for attending the meeting.

14 WPP - Update.

The Interim Deputy Section 151 Officer presented a 'for information' report which updated the Committee on the progress of the Wales Pension Partnership asset pooling.

Appendix 1 provided the progress and update report provided by the ACS Operator Link Asset Services.

Referenced within the update was the projected approval of the tranche 3 fixed income fund by the FCA in Q4 2019.

15 Residential Housing as an Asset Class.

The Interim Deputy Section 151 Officer presented a report which sought to approve Residential Housing as an investment asset class.

It was outlined that the Pension Fund currently invested in a wide range of asset classes, including equities, bonds, property, infrastructure, private equity, hedge funds and private debt. However, It did not have an allocation to residential housing.

It was added that the Pension Fund Committee received a day's training on the asset class in February 2019, which included presentations from managers specialising in the market rented sector, social housing, affordable housing and homelessness support housing as investable asset classes.

Appendix 1 provided a summary of the attributes and benefits of adopting residential housing as an asset class.

The Committee discussed structuring the procurement exercise to target certain types of residential housing, the possibility localising matters to benefit the local economy.

The Deputy Section 151 Officer stated that he would seek further advice from the Fund's Investment Consultant / Independent Advisor.

Resolved that Residential Housing is adopted as an investment asset class.

16 Report of the Investment Consultant.

Nick Jellema, Investment Consultant provided a 'for information' report, which presented the asset valuation and investment performance for the quarter, year and 3 years ended 30 June 2019.

Attached at Appendix 1 were the quarterly investment summaries for the Pension Fund for the quarter, year and 3 years ended 30 June 2019.

17 Report(s) of the Independent Advisor.

The "for information" report presented the economic update and market commentary from the perspective of Mr Noel Mills, Appointed Independent Investment Advisor.

The quarterly report ending 30 June 2019 was attached at Appendix 1.

The content of the report was noted by the Committee and various questions were asked, which were responded to accordingly. The Appointed Independent Investment Advisor was thanked for his report.

18 Investment Summary.

The Interim Deputy Section 151 Officer provided a "For Information" report, which presented the investment performance for the quarter, year and 3 years ended 30 September 2018.

The quarterly investment summaries for the Pension Fund for the quarter, year and 3 years ended 30 September were attached at Appendix 1.

Resolved that the report be noted.

The meeting ended at 1.00 pm

Chair