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Pensions Committee

Friday 23 October 2020

10:00

Virtual Meeting via Microsoft Teams

Note: Attendance by the public and press is via webcast only which can be viewed here - <https://staffordshire.public-i.tv/core/portal/home>

John Tradewell
Director of Corporate Services
15 October 2020

A G E N D A

PART ONE

1. **Apologies**
2. **Declarations of Interest**
3. **Minutes of the meeting held on 25 September 2020** (Pages 1 - 8)
4. **Minutes of the Pensions Panel held on 14 September 2020** (Pages 9 - 12)
5. **Staffordshire Pension Fund 2019/20 Investment Performance**
Presentation by Portfolio Evaluation Limited
6. **Actuarial Update**
Presentation by Hymans Robertson
7. **Exclusion of the Public**
The Chairman to move:

'That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraph of Part 1 of schedule 12A of the Local Government Act 1972 indicated below'

PART TWO

8. **Exempt minutes of the meeting held on 25 September 2020** (Pages 13 - 18)
9. **Exempt minutes of the Pensions Panel held on 14 September 2020** (Pages 19 - 28)

Membership	
Allen	Alastair Little (Chairman)
Philip Atkins, OBE	Bob Spencer
Nigel Caine (Co-Optee)	Mike Sutherland
Mike Davies (Vice-Chairman)	Stephen Sweeney
Derek Davis, OBE	Martyn Tittley
Colin Greatorex	Michael Vaughan
Phil, Jones	

Note for Members of the Press and Public

Filming of Meetings

The Open (public) section of this meeting may be filmed for live or later broadcasting or other use, and, if you are at the meeting, you may be filmed, and are deemed to have agreed to being filmed and to the use of the recording for broadcast and/or other purposes.

Recording by Press and Public

Recording (including by the use of social media) by the Press and Public is permitted from the public seating area provided it does not, in the opinion of the chairman, disrupt the meeting.

Minutes of the Meeting of the Pensions Committee held on 25 September 2020

Attendance	
Philip Atkins, OBE	Mike Sutherland
Alastair Little (Chair)	Stephen Sweeney

Also in attendance: Rob Birch and Ian Jenkinson (Pensions Board Members)

Apologies: Nigel Caine, Mike Davies, Derek Davis OBE, Colin Greatorex, Phil, Jones, Bob Spencer, Martyn Tittley and Michael Vaughan.

Note by Clerk: Michael Vaughan indicated that he would have attended the meeting had IT equipment been available to enable him to attend virtually.

PART ONE

1. Declarations of Interest

There were no declarations of interest on this occasion.

2. Minutes of the meeting held on 7 February 2020

RESOLVED – That the minutes of the meeting of the Pensions Committee held on 7 February 2020 be confirmed and signed by the Chairman.

3. Minutes of the Meeting of the Pensions Panel held on 3 March 2020

RESOLVED – That the minutes of the meeting of the Pensions Panel held on 3 March 2020 be noted.

4. Appointment of Pensions Panel

RESOLVED – That the following Members be re-appointed to serve on the Pensions Panel for the 2020/21 municipal year:

- Philip Atkins
- Derek Davis OBE
- Colin Greatorex
- Mike Sutherland
- Stephen Sweeney

5. Staffordshire Pension Fund investment benchmarking results for the period ending 31 March 2019

The Committee were informed that the Pension Fund took part in an annual investment benchmarking exercise with an international company, CEM Benchmarking Inc. CEM

benchmark over 300 pension funds globally, with total assets of £7.2 trillion. The Committee received the results of the 2018/19 CEM benchmarking survey, where Staffordshire was compared, on a number of cost and performance metrics, to a global peer group of 20 pension funds that had a median size of £5.3bn versus the Pension Fund's £5.1bn market value, at 31 March 2019.

Members noted that a straightforward comparison of investment returns and costs, as publicly reported by pension funds, would never be meaningful. This was because there were several variables which also needed to be considered in order to obtain a like for like comparison; e.g. assets under management, strategic asset allocation, implementation style, benchmarks etc. The survey undertaken by CEM adjusted for these variables and provided more clarity on investment return and cost comparisons for the Pension Fund versus the selected peer group.

Members received a presentation from John Simmons of CEM Benchmarking Ltd giving an overview of the performance of the Staffordshire Pension Fund for the period ending 31 March 2019. The key points arising from the presentation were as follows:

- The Fund's 5-year net total return of 9.0% was above both the LGPS median of 8.6% and the Global median of 6.7%.
- The Fund's 5-year benchmark return of 9.2% was above both the LGPS median of 8.7% and the Global median of 6.7%.
- The Fund's asset risk of 11.4% was above the LGPS median of 11.0%. It's asset-liability risk of 11.6% was above the LGPS median of 11.2%.
- The funding level of 96% on the standard GAD basis in 2016 was below the LGPS median of 97%.
- The Fund's 5-year net value added was -0.2%. This was slightly below the LGPS median of 0.1% and close to the global median of 0.0%.
- The Fund's cost of 64.9 bps was above its benchmark cost of 58.0 bps.
- The Fund's cost increased from 55.8 bps in 2014/15 to 64.9 bps in 2018/19.

In response to a question from Mr Sutherland regarding why costs had risen, Mr Simmons indicated that this was primarily due to changes to the Fund's Strategic Asset Allocation and the move into Alternative Asset classes, such as Private Debt, which were more expensive to invest in than equities.

RESOLVED – That the report of the Director of Corporate Services and the presentation from CEM Benchmarking Inc be noted.

6. Staffordshire Pension Fund Audit Plan 2019/20

The Committee were informed that the audit of the Staffordshire Pension Fund would be undertaken by Ernst and Young (EY) who were also the County Council's auditors. Although the Fund would be audited as part of the County Council's accounts, EY would issue a separate opinion on the Fund and produce a Fund specific Audit Findings Report (ISA260). This would be reported to both the Pensions Committee and the Audit and Standards Committee in due course.

The work the Auditors intended to undertake would provide the Fund with the following:

- The Auditor’s opinion on whether the financial statements of the Staffordshire Pension Fund gave a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2019 and the amount and disposition of the Fund’s assets and liabilities as at 31 March 2019; and
- The Auditor’s opinion on the consistency of the Pension Fund’s financial statements within the Pension Fund’s annual report with the published financial statements of the County Council, as the administering authority.

The Director of Corporate Services indicated that the Audit Plan had identified the following “significant” risks and the action to be taken by the Auditors to mitigate those risks:

- Misstatements due to fraud or error
- Investment income and assets – Investment Journals
- Valuation of unquoted investments
- Valuation of directly held properties
- Local Government Pension Scheme Asset Pooling Arrangements

The Committee were informed that, for the purposes of determining whether the financial statements were free from material error, the Auditors had determined that overall materiality for the financial statements of the Pension Fund was £47.4 million based on 1% of the value of the net assets of the Fund. The Committee were also informed that EY would report back on all uncorrected misstatements relating to the primary statements (Net Assets Statement and Pension Fund Accounts) with a value greater than £2.4 million.

The Committee noted that the Audit Fee, as yet to be finally confirmed, was likely to be higher than the £27.550 quoted, due to the additional work created as a result of the effect of the Covid-19 Pandemic on investment valuations.

RESOLVED – That the external auditor’s plan for the audit of the Staffordshire Pension Fund (the Fund) for the 2019/20 financial year be noted.

7. Staffordshire Pension Fund Business Plan 2020/21

The Committee were informed that historically, if presented in March, the report would have asked the Committee to review progress against the 2019/20 financial year’s Business Plan and based on that, approve a proposed Business Plan for the 2020/21 financial year. However, given the postponement of the March and June Pensions Committee meetings, as a result of the Covid-19 pandemic, the report before Members only sought retrospective approval of the 2020/21 Business Plan.

The Director of Corporate Services indicated that the Business Plan for 2020/21 was, once again, split into two distinct sections. The first section dealt with Key Development Activities which aimed to make working practices more efficient and effective. The second section dealt with the activities that needed to be undertaken as part of the day job, but which impacted significantly at certain points in the year or which happened as a by-product of another activity e.g. finalising the year end data. Some of the areas that

the Pensions Services Teams had identified as Key Development Activities in 2020/21 included:

- Review / Undertake a Mortality / Living as Stated / Tracing Exercise, to improve the quality of the data the Fund held about its Deferred Members, with a focus on improving the Fund's Data Score, reported to the Pensions Regulator;
- Continuing to implement i-Connect software for data collection with Fund Employers, with the aim of having as close to 100% of Active Fund Member data being submitted monthly;
- Assessing the output from the Scheme Advisory Board's Good Governance Review and considering how best to implement any actions identified;
- Continued promotion of My Pensions Portal (MPP), the self-service area of the Pension Fund website (www.staffspf.org.uk); including the introduction of new functionality that would be available to scheme members, as the software was developed; and
- Maintaining effective LGPS asset pool Governance and monitoring asset transitions into LGPS Central as more sub-funds were launched.

The Director of Corporate Services also informed the Committee that the Pension Fund currently had five main areas of 'resource/cost' -

- Pension's administration and accounting (internal);
- Advice from actuary and consultants/advisors (external);
- Legal support either internal or external;
- Investment management (external);
- Custody (external).

Members noted that several costs were very difficult to anticipate, for example costs for investment advice and legal support varied depending on the level of activity. Investment Management fees varied dependent of the GBP(£) amount of assets under management (AUM) and the level of manager performance, impacting on the payment of performance related fees. Therefore, it was likely that there could be considerable variation in the final outturn position. In view of the uncertainty around a number of costs highlighted in the report, it was not proposed to use these estimated costs for 'budget monitoring' purposes per-se but to use them as an indication. Whilst they would be compared to the budget forecast post 31 March as part of the outturn report, the Committee was asked to consider them alongside cost comparisons, benchmarking and trends to ensure that value for money was being delivered. The Director added that a more detailed report on comparative outturn costs for 2019/20 would be brought to the Committee in December 2020, or sooner if the audit of the accounts was concluded before then.

RESOLVED – That the Staffordshire Pension Fund Business Plan 2020/21, attached at Appendix A to the report, be approved and the key challenges surrounding its delivery be noted.

8. Staffordshire Pension Fund Risk Register and Risk Management Policy

The Committee considered a report of the Director of Corporate Services on the Fund's Risk Register.

They were informed that CIPFA Guidance recommended the production and monitoring of a Risk Register for Local Government Pension Scheme (LGPS) funds. At their meeting in June 2019, the Pensions Committee noted the contents of the Pension Fund Risk Register at that time and asked the Local Pension Board to continue to undertake a regular detailed review of the identified risks and the process for maintaining the Risk Register and report back on any areas of concern. It was also agreed that the Pensions Committee would continue to carry out an annual review of the high level and emerging risks identified from the Fund's Risk Register.

The Committee noted that the Risk Register brought together all the Fund's risks in a single document. It continued to be based on the 4 key areas of activity within the Fund: Governance, Funding, Administration and Investment.

The detailed Risk Register matched high-level risks, under each of the 4 areas of activity, to the Fund's high level objectives. Each of the detailed risks had been given an impact score and a likelihood score before any controls were applied. These had then been combined to give an overall pre-control risk score, which had been assigned a Red – Amber - Green (RAG) rating.

Controls that were currently in place to mitigate risks and additional sources of assurance were then considered to provide a post control impact and likelihood score. Again, these had been combined to give an overall post control risk score which had been assigned a RAG rating. All risks were given a review date, risk owner and any future actions to be taken were noted.

Officers reviewed the Risk Register every quarter, focusing in on the detail of one of the 4 areas, along with a review of any emerging risks. As part of their review, Members of the Local Pensions Board had attended the review meetings and had taken an active role in the discussions.

The Committee considered a summary of the high-level risks associated with the objectives (detailed in Appendix 3 to the report), together with emerging risks (detailed in Appendix 4 to the report).

Mr Jenkinson indicated that the Pensions Board had carried out a regular detailed review of the identified risks and the process for maintaining the Risk Register, and they had concluded that:

- The Risk Register was a robust and comprehensive register of risks that the Pension Fund faced.
- The procedure for reviewing the Register was carried out regularly with each risk being evaluated and updated as required.
- The Officer Working Group that conduct these reviews had ownership of the individual risks and the whole Register and took their responsibility seriously.

- The Board also considered that there was value in continuing to attend meetings of the Officer Working Group.

Mr Jenkinson also indicated that the Board would be content to continue to play an active role in the ongoing review of risks if the Committee wished it to do so.

The Committee were also informed that the Pension Regulator's Code of Practice recommended that a Pension Fund had a Risk Management Policy in place and that this was reviewed periodically. The risk management policy covered key areas such as:

- The Fund's attitudes to, and appetite for, risk;
- Aims;
- Risk measurement and management; and
- Responsibility

The Committee considered the updated Risk Management Policy for the Staffordshire Pension Fund.

RESOLVED – (a) That the high-level summary risks and emerging risks from the current Staffordshire Pension Fund Risk Register, as presented in Appendices 3 and 4 to the report respectively, be noted.

(b) That the content and recommendations of the Local Pensions Board review of the Staffordshire Pension Fund Risk Register, attached at Appendix 2 to the report, be noted, and that the Local Pensions Board be requested to continue to play an active role in the ongoing review process.

(c) That the Risk Management Policy of the Staffordshire Pension Fund, attached at Appendix 5 to the report, be approved.

9. McCloud and Exit Cap - MHCLG Consultation Update

The Committee received a presentation from the Director of Corporate Services on the potential impact on the Fund, and its members, of:

- The Ministry of Housing, Communities & Local Government consultation on proposals to remove age discrimination from the Local Government Pension Scheme in England and Wales (LGPS) following the McCloud ruling which found that transitional protections given to older members in the judicial and firefighters' pension schemes directly discriminated against younger members in those schemes. The proposals, if made law, would extend LGPS statutory underpin protection to younger members of the scheme.
- The Ministry of Housing, Communities & Local Government consultation on reforming exit payment terms for local government workers.

The Committee noted that, with regard to the proposals arising from the McCloud judgement, there were a number of concerns/issues which would have to be addressed including:

- Data – the need to collect back data on hours / breaks from all Employers (for all Employees?) since 1 April 2014.
- Assumptions – these needed to be consistent and in favour of the member if data was unavailable.
- Technology – the need for software providers to update systems to prevent having to do manual calculations.
- Resources – with c35,000 cases in scope where pensions benefits would need to be recalculated in line with underpin, there would be a need for several more staff and a project team – all at an increased service cost.
- Priorities – e.g. the need to understand if benefits in payment now were more important to recalculate than deferred benefits due.
- Communications – both for Employees and Employers.
- Timeframe - the need to understand how long the Fund had to complete the 10 years 'backlog'?

The Director informed the Committee that officers were preparing a response to the consultation. Mr Atkins also referred to the burden which would be placed on employers within the Fund in having to provide salary data for scheme members going back to 2014.

With regard to the consultation on reforming exit payment terms for local government workers, the Committee were informed that the Government first introduced plans to cap exit payments in the public sector in 2015. The original proposals limited the maximum exit compensation payable to £95k. The Government had now launched a consultation to incorporate the £95k cap within the LGPS regulations and to also change the Compensation Regulations. The Director explained that the proposals raised a number of issues/concerns which would have to be addressed including:

- Expectations - scheme members who had already received pre-cap quotations.
- Legality / Timeframe – alignment of Regulations was required otherwise payments might be deemed illegal (particularly if the Exit Payment Regulations were introduced at short notice).
- Resources – current retirement quotes were no longer fit for purpose and already creating a backlog. Would Pensions Teams be expected to provide option analysis?
- Technology – LGPS software providers were likely to take some time to update systems resulting in lengthy manual calculations in the meantime?
- Employers – New compensation policies would need to be introduced at short notice and replacements for complex compensation calculation systems would be required.
- Communications – clarity on such a complex subject matter for Employees and Employers.
- Uncertainty – there were many unanswered questions.

RESOLVED – That the presentation be received and noted.

10. Exclusion of the Public

RESOLVED – That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraphs of Part 1 of Schedule 12A of the Local Government Act 1972 indicated below.

PART TWO

The Committee then proceeded to consider reports on the following issues:

11. Exempt minutes of the meeting held on 7 February 2020

(Exemption paragraph 3)

12. Exempt minutes of the Pensions Panel held on 3 March 2020

(Exemption paragraph 3)

13. LGPS Regulations - Admission of New Employers to the Fund

(Exemption paragraph 3)

14. Local Government Pension Scheme Regulation - Debt Write-off

(Exemption paragraph 3)

15. LGPS Central and Pooling Update

(Exemption paragraph 3)

Chairman

Minutes of the Pensions Panel Meeting held on 14 September 2020

Attendance

Philip Atkins, OBE (Chairman) Mike Sutherland
Derek Davis, OBE

Also in attendance: Rob Birch (Observer), Carolan Dobson (Independent Adviser), Ian Jenkinson (Observer) and Paul Potter (Hymans Robertson).

Apologies: Colin Greatorex and Stephen Sweeney

PART ONE

1. Declarations of Interest

Carolan Dobson (Independent Advisor) informed the Panel that she was a member of the Aberdeen Standard Fund Managers Board.

2. Minutes of meeting held on 3 March 2020

RESOLVED – That the minutes of the Meeting of the Pensions Panel held on 3 March 2020 be confirmed and signed by the Chairman.

3. Pension Fund Investment Performance Q2 2020

The Director of Corporate Services submitted a summary of the performance of the Staffordshire Pension Fund, together with a portfolio of the Fund's investments, as at 30 June 2020.

The Panel were informed that the Fund had a market value of £5.4 billion as at 30 June 2020. Over the quarter the Fund returned 12.9%, which was higher than the Fund's Strategic Asset Allocation benchmark return by 0.4%. The best performing asset classes relative to their benchmark, were Hedge Funds and Private Debt, whilst Private Equity was the main detractor from performance, underperforming its benchmark by 2.1%.

The Fund has still outperformed its strategic benchmark over a 10-year period. Annualised returns over this period are more than 9% per annum, well above the investment return assumptions used by the Actuary as part of the triennial valuation.

In response to a question from Mr Jenkinson regarding the fall in the value of BP stocks well below their purchase price, Mr Potter explained that the devaluation of these stocks had come about due to a heavy fall in oil prices as a result of a drop in demand during the Coronavirus pandemic.

RESOLVED – That the Pension Fund Investment performance and the portfolio of investments for the quarter ended 30 June 2020 be noted.

4. Responsible Investment (RI) report quarter 2 2020

The Director of Corporate Services submitted a summary of activity during the quarter ended 30 June 2020 by the Fund's investment managers in fulfilment of their corporate governance and socially responsible investment obligations, including details of their voting activity on corporate resolutions for companies held in their portfolios.

The Director also submitted the quarterly report of the Local Authority Pension Fund Forum (LAPFF) and the Quarterly Stewardship Report issued by LGPS Central Limited.

The Panel were informed that, in accordance with Regulations, the Fund is expected to become a signatory to the Financial Reporting Council's UK Stewardship Code. The Staffordshire Pension Fund was accepted as a Tier 1 signatory of the UK Stewardship Code in 2017. The Fund's statement of compliance with the UK Stewardship code was updated in 2018 and submitted to the Financial Reporting Council, who reaffirmed the Tier 1 status. The Financial Reporting Council recently launched an updated UK Stewardship Code. The Code took effect from 1 January 2020 and aims to improve stewardship practices by setting a substantially higher standard than before. Existing signatories to the Code will be required to submit a Stewardship Report that meets the FRC's new reporting expectations by 31 March 2021, to continue to be listed as signatories to the UK Stewardship Code. Further information would be brought to the Panel in 2020 on the work the Fund does, to meet the criteria of the enhanced UK Stewardship Code.

RESOLVED - That the content of the Responsible Investment (RI) report, including the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report and LGPS Central Limited (LGPSC) Quarterly Stewardship Report, be noted.

5. Dates of Future Meetings

RESOLVED – That the dates of Future meetings of the Panel, as set out below, be noted:

1 December 2020
2 March 2021

(Note: All meetings are scheduled to start at 9.30am.)

6. Exclusion of the Public

RESOLVED - That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraph of Part One of Schedule 12A of the Local Government Act 1972 (as amended) indicated below.

PART TWO

The Panel then proceeded to consider reports on the following issues:

7. Exempt Minutes of the Meeting held on 3 March 2020

(Exemption paragraph 3)

8. Staffordshire Pension Fund performance and manager monitoring for the quarter ended 30 June 2020

(Exemption paragraph 3)

9. Strategic asset allocation review and monitoring

(Exemption paragraph 3)

- a) Market Update
- b) Sustainable Equity investing
- c) Strategic Asset Allocation Review and Monitoring

10. Corporate bond transition

(Exemption paragraph 3)

11. Manager presentation - Longview Partners (global equity)

(Exemption paragraph 3)

12. Manager presentation - J.P. Morgan (global equity)

(Exemption paragraph 3)

Chairman

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