ANNUAL REPORT OF THE PENSION FUND PANEL 2017-2018

(Meetings held on 5 June, 7 July, 4 September, 6 October, 3 and 24 November 2017, 23 February and 13 April 2018)

1. Appointment of Chair and Vice-Chair

Councillor J. Watson was appointed Chair and Councillor D. Kennedy was appointed Vice-Chair of the Pension Fund Panel ("**the Panel**") for the 2017/2018 Council year.

2. Border to Coast Pensions Partnership (BCPP) pooling arrangement

In July 2015 the Government announced that it would work with LGPS administering authorities to ensure they pooled their LGPS investment assets. The subsequent Government consultation on LGPS pooling, published in November 2015, set out the criteria to be met by the prospective pools.

Following research into options and the recommendations of the Panel, in February 2017, full Council gave approval for NCC, acting in its capacity as LGPS administering authority for the Northumberland County Council Pension Fund ("**the Fund**"), to enter into the governance arrangements to become an investor and shareholder in Border to Coast Pensions Partnership (BCPP) Ltd. There are twelve LGPS administering authorities participating in the BCPP pooling arrangement, including the four North East funds i.e. Tyne and Wear Pension Fund, Teesside Pension Fund, Durham County Council Pension Fund and Northumberland County Council Pension Fund.

The Chair and Vice-Chair (as substitute) were appointed by the Panel to represent NCC on the BCPP Joint Committee. During the year, officers and members (as appropriate) attended all meetings of the BCPP Officer Operations Group and Joint Committee to work with the other funds to build the pool operator, BCPP Ltd.

The Panel received updates on progress during the year and considered recommendations made by the BCPP Joint Committee to the participating funds, and made decisions accordingly.

3. Shared pensions administration service with Tyne and Wear Pension Fund (TWPF)

The Panel received updates during the year as officers worked with Tyne and Wear Pension Fund (TWPF) (i.e. South Tyneside Council) to develop a fully integrated shared LGPS pensions administration service. TWPF provided officer support for NCC's Pensions Administration Team during this time.

The shared administration service with TWPF came into effect from 29 January 2018 when the Fund's LGPS membership records and pensioner payroll function transferred to TWPF, and the former NCC Pensions Administration Team also TUPE transferred to TWPF.

The Panel provided oversight of the shared service implementation and noted that the primary aim in entering into the arrangement was to ensure that NCC, as administering authority, could deliver a robust, fit for purpose service to its LGPS members into the future.

The Panel approved the shared administration service budget for 2018/2019 to 2020/2021 and noted the expected payback period for the implementation costs of approximately 3.6 years.

4. Estimated funding position for NCC Pension Fund

The Panel received quarterly updates of the estimated actuarial funding position for the Fund (at whole Fund level).

The most recently available estimated funding level, as at December 2017, showed an increase to 98% compared to 84% at the last formal actuarial valuation as at 31 March 2016. The estimated funding level improved largely due to:

- asset returns for the Fund since 1 April 2016 being higher than assumed at the 2016 valuation; and
- the estimated value of liabilities being uprated reflecting a discount rate decrease due to the actuary predicting lower future returns on investments in the future.

5. Quarterly monitoring of investments with information from Mercer, the Fund's investment managers and the performance measurement service provider

Each quarter, the Panel received quarterly performance information, Mercer's research information and ratings of the Fund's investment managers, and presentations from selected managers following an agreed programme.

In February 2018, Mercer conducted a currency hedging review and the Panel resolved to retain the Fund's currency hedging position.

An additional Panel meeting was held in October 2017 to enable further monitoring of the Fund's two infrastructure fund managers.

6. Infrastructure manager selection

In order to maintain the Fund's exposure to infrastructure at 5% of Fund value, the Panel conducted interviews, in April 2018, to select a manager to make a new commitment to. Following the interviews and subject to further due diligence work, the Panel selected Pantheon's Global Infrastructure Fund III for the Fund to commit £40 million to.

7. Private equity investment with Pantheon

The Panel received information about the Fund's new investment in Pantheon's Global Select 2017 private equity fund of funds. The investment was made following due diligence work carried out after a selection process in April 2017 at which the decision was made by the Chief Executive in consultation with the Chair and Vice-Chair of the Panel for the Fund to commit £50 million to Pantheon's Global Select 2017 private equity fund of funds.

8. Implementation of the Markets in Financial Instruments Directive (MiFID II)

The Panel received information on the potential impact of the implementation of MiFID II and the risk to the Fund's investment strategy of being reclassified as a "retail client" on 3 January 2018, when the new legislation came into effect.

The Panel agreed, where necessary, to forgo the protections available to retail clients and gave delegated authority to the Director of Corporate Services to complete the opt up applications with all relevant financial institutions.

The Panel received an update to confirm that, prior to 3 January 2018, all of the Fund's relevant financial service providers had been satisfied that the Fund met the criteria to be opted up to "elective professional client" status.

9. Fee reduction proposal

The Panel approved a proposal from Wellington (the Fund's active bond manager) to reduce the fees charged to the Fund with effect from 1 January 2018.

10. Action Plan 2018 for NCC Pension Fund

The Panel approved the Action Plan 2018 for the Fund, which acts as a checklist and progress monitoring tool for one-off and regular items to be brought to the Pension Fund Panel in the following year and beyond. The Panel requested that quarterly monitoring against the Plan be introduced.

11. Northumberland County Council Pension Fund annual report and accounts

The Panel received the Fund's annual report and accounts for the year to 31 March 2017 together with the external auditor's planning report and final report. The Panel also received the external auditor's planning report for the accounts for the year to 31 March 2018.

12. General Data Protection Regulation (GDPR)

The Panel received information about and considered the implications for NCC, as administering authority, of the General Data Protection Regulation (GDPR), which will take effect from 25 May 2018.

GDPR builds on the principles established by the Data Protection Act 1998 and raises the levels of personal data security and privacy protections across all data processors and controllers.

The Panel noted that the Fund will not seek consent from LGPS members to process data; it will instead rely on "compliance with a legal obligation" as the basis for lawful processing of personal data.

13. NCC Pension Fund's Objectives

The Panel approved an updated Statement of Objectives for the Fund to comply with LGPS Regulations, the Pensions Regulator's Code of Practice 14 and other related guidance.

14. NCC Pension Fund's Investment Strategy Statement

In February 2018, the Panel approved a revised NCC LGPS Investment Strategy Statement (ISS), updating the previous ISS to reflect changes made in the year including the Fund's new investments in Legal and General's currency hedged units and its legal commitment to BCPP pooling arrangement.

The requirement to have an ISS in place from 1 April 2018 replaced the previous regulatory requirement to have a Statement of Investment Principles (SIP).

15. NCC Pension Fund's Administration Strategy

The Panel approved a revised NCC LGPS Administration Strategy to align with TWPF's Administration Strategy following implementation of the shared pensions administration service. This change was made to facilitate an efficient shared service.

16. NCC Pension Fund's Administering Authority Discretions Policy

The LGPS Regulations contain a number of administering authority discretions for which authorities *may* adopt a written policy. For the majority of these discretions, it is not a *requirement* to have a written policy in place, and the Fund's previous practice was to adopt a written policy only where required by the Regulations.

The Panel approved the introduction of a Discretions Policy for the Fund to specify the decision maker, should a decision to exercise a discretion be required following implementation of the shared administration service with TWPF. A comprehensive Discretions Policy was adopted to facilitate an efficient shared service.

17. NCC Pension Fund's Governance Policy and Compliance Statement

The Panel approved the revised NCC LGPS Governance Policy and Compliance Statement to reflect changes made following the implementation of the shared pensions administration service with TWPF.

18. NCC Pension Fund's Communication Strategy Statement

The Panel approved a revised and updated NCC LGPS Communication Strategy Statement to reflect changes made following the implementation of the shared pensions administration service with TWPF.

19. Formal measurement of the performance of the investment adviser

Panel members conducted the annual formal assessment of the performance of the Pension Fund Panel adviser, Mercer.

20. Formal measurement of the effectiveness of the Pension Fund Panel

The Panel approved an annual report formally assessing its own effectiveness as a decision making body to comply with CIPFA guidance on decision making in the LGPS.

21. Monitoring of breaches of the law and KPIs

The Panel received quarterly monitoring reports detailing breaches of the law. All such recorded breaches were deemed to be not reportable to the Pensions Regulator (tPR).

The Panel also received quarterly monitoring of KPIs for the Fund and, each quarter, delegated to the NCC LGPS Local Pension Board ("**the Board**") to conduct an in-depth review of both the quarterly breaches log and KPIs.

The Panel noted that the format and content of the breaches information provided would change following implementation of the shared service with TWPF, and that "routine" breaches would not be logged in the period 1 January 2018 to 29 January 2018 while the LGPS membership records transfer was taking place.

22. Actions taken by the Pensions Regulator

The Panel received information regarding actions taken by tPR to ensure pension schemes comply with their legal obligations. Oversight of public sector schemes by tPR began in April 2015, and tPR made it clear that it would use a "light touch" initially, but would use its enforcement powers later.

In April 2017, tPR took its first action to fine a LGPS administering authority for failure to provide the administering authority's scheme return, followed, in July 2017, by tPR publishing a report detailing its first criminal prosecutions of parties failing to provide information requested as part of ongoing investigations into private sector schemes.

23. Training needs analysis

A formal training needs analysis procedure for the Fund, for annual completion by Panel and Board members, was introduced in September 2017.

24. Training records

The Panel completed the 2017/2018 annual review of the training records of Panel and Board members, as well as officers involved in administering the LGPS in NCC.

25. Reports on internal controls operated by fund managers and the custodian

The Panel received information about the most recently available ISAE 3402 (or equivalent) reports provided by the Fund's custodian and investment managers. These reports are prepared at least annually, to describe the internal controls to protect the interests of clients each of the Fund's custodian and fund managers has in place.

26. DCLG statistical release 2016/2017

Members received a report with details of the DCLG statistical release on LGPS funds in England and Wales in 2016/2017 which compared NCC Pension Fund information with other funds' information.

27. Additions to the NCC Pension Fund risk register

The Panel approved additions to the NCC risk register, to update it for new risks faced by NCC as administering authority for the LGPS, including cyber risk, GDPR and risks around data transition to TWPF to implement the shared pensions administration service. The Panel delegated the initial consideration of these additional risks to the Board.

28. Annual report of the NCC LGPS Local Pension Board

The Panel received the 2016/2017 annual report of the NCC LGPS Local Pension Board, and noted the introduction of a new process from September 2017, to communicate the Board proposals to the Panel on a quarterly basis.

29. Conflicts of Interest Policy for NCC Pension Fund and individual declarations of interests

The Panel was reminded of the Fund's Conflicts of Interest Policy which applies to Panel and Board members and key officers involved in administering the LGPS, and renewed or completed individual declarations of interests.

30. Proposed changes to State Pension Age

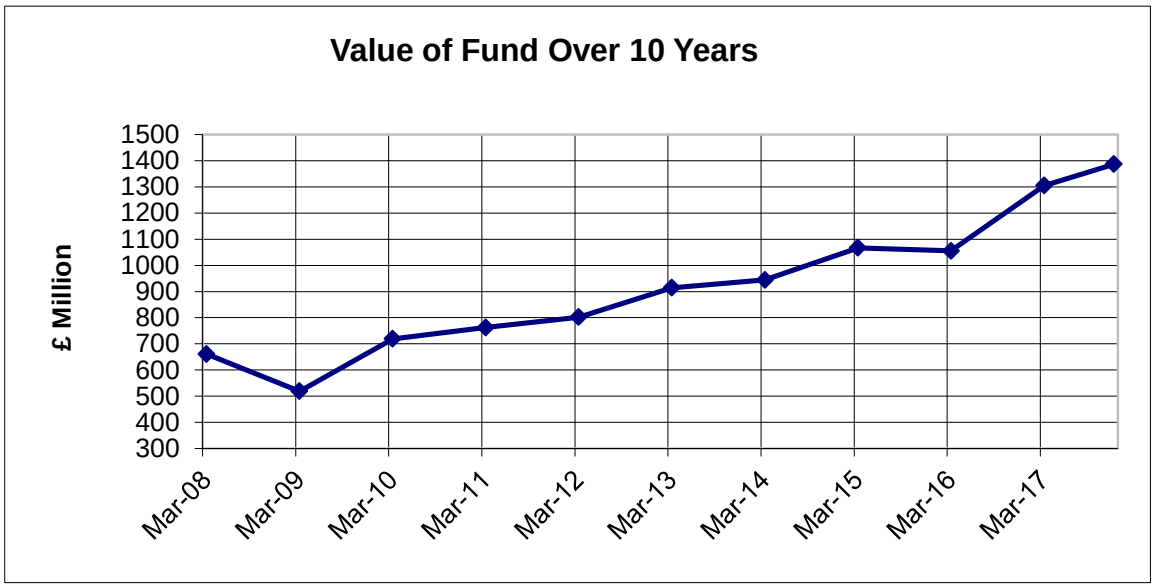
The Panel received information about the Government's plans, announced in July 2017, to accelerate the previously proposed increase in State Pension Age and the likely impact on future employer contribution rates payable.

31. Fund value

The Panel has received quarterly performance information for the Fund as a whole and for each fund manager, as well as the total Fund value analysed by manager. The total Fund value at the last ten year-ends and the (unaudited) value at the most recently available quarter end are shown below:

	Fund value £m
31 December 2017 (unaudited)	1,386
31 March 2017 (audited)	1,305
31 March 2016 (audited)	1,055
31 March 2015 (audited)	1,067
31 March 2014 (audited)	944
31 March 2013 (audited)	914
31 March 2012 (audited)	802
31 March 2011 (audited)	763
31 March 2010 (audited)	719
31 March 2009 (audited)	520
31 March 2008 (audited)	661

The Fund returned **10.8%** on investments in the **year to 31 December 2017**, and 11.7% per annum (annualised) in the three years to 31 December 2017 which was ahead of the Fund specific benchmark return of 11.4% (annualised) over the same period.



Councillor Jeff Watson
Chair of the Pension Fund Panel

Acknowledgements
The Chair thanked the members of the Pension Fund Panel and NCC LGPS Local Pension Board for their hard work and continued collaborative working throughout 2017/2018. Particular thanks were given to the NCC Pensions Administration Team that TUPE transferred to TWPF in the year.