

ANNUAL REPORT OF THE PENSION FUND PANEL

2018-2019

(Meetings held on 13 April, 22 June, 6 October and 23 November 2018,
and 22 February 2019)

(Also informal meetings held on 26 July and 6 December 2018,
and 8 March 2019)

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 2018/19 Council year.

2. Border to Coast Pensions Partnership (BCPP) Pool

In July 2015 the Government announced plans to work with LGPS administering authorities to ensure they pooled their LGPS investment assets. Government guidance published in November 2015 set out the criteria to be met by the (then) prospective pools. In February 2017, Council gave approval for NCC, as LGPS administering authority of Northumberland County Council Pension Fund (**“NCCPF”**) (**“the Fund”**), to commit to investing in and joint ownership of Border to Coast Pensions Partnership (**“BCPP Ltd”**) with eleven other LGPS pension funds including Durham, Teesside and Tyne and Wear. The Panel’s Chair and Vice-Chair (as substitute) represent NCCPF on the BCPP Joint Committee (**JC**).

During 2018/19 members or officers (as appropriate) attended all meetings of the BCPP Officer Group and BCPP JC, and relevant workshops, working with the other authorities to develop the BCPP Pool.

The Panel received updates on progress and considered recommendations of the BCPP JC to the participating authorities, and made decisions accordingly.

Milestones met by BCPP Ltd during 2018/19 included:

- obtaining FCA approval to manage assets and moving into the newly fitted out offices at Toronto Square, Leeds, LS1 2HJ;
- calling its regulatory capital of £10 million in total from the twelve participating authorities i.e. £833,333 from each;
- from July 2018, managing assets including:
 - approximately half the assets of the three internally managed pension funds (i.e. East Riding, South Yorkshire and Teesside pension funds), transferred to be managed by BCPP Ltd in three in-house equity sub funds;
 - a small proportion of the assets of Surrey, Tyne and Wear and Warwickshire pension funds, transferred to be managed in the BCPP Ltd UK Alpha (externally managed) equity sub fund;

- a small proportion of Cumbria County Council Pension Fund's assets, transferred to be managed in the in-house UK equity sub fund;
- TUPE transferring eleven investment management staff from East Riding and South Yorkshire pension funds to BCPP Ltd;
- continuing external recruitment, with Daniel Booth appointed as Chief Investment Officer in September 2018, and a total of sixty staff in post by the end of March 2019;
- engaging key contractors including RazorBlue (ICT provider); Analytics (transition adviser); Mercer (manager research); LGIM (transition manager); Robeco (engagement and share voting service provider); and Northern Trust (depository, custodian and ACS provider); and
- with the assistance of Eversheds Sutherland, designing the legal structure for managing the private markets (alternatives) investments.

By the end of March 2019, five pension funds (i.e. Bedfordshire, Durham, Lincolnshire, Northumberland and North Yorkshire) had not transferred any assets to BCPP Ltd's management because suitable sub funds had not yet been developed.

In January 2019, Government launched a consultation on proposed new guidance on asset pooling to replace the November 2015 guidance. Whilst the draft guidance was *broadly* supportive of the structure already established for BCPP Ltd, if implemented as drafted it could hamper the future efficient running of BCPP Ltd. NCCPF responded to the consultation to raise its concerns.

3. Shared pensions administration service with Tyne and Wear Pension Fund (TWPF) provided by South Tyneside Council (STC)

Working with the NCC LGPS Local Pension Board ("**the Board**"), the Panel has continued to monitor the performance of the shared administration service with TWPF, following its implementation in January 2018, to ensure it delivers an effective and efficient service.

The Panel approved the shared administration service budget for the three years from 2019/2020 to 2021/2022.

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 for NCCPF, as at December 2018, showed an increase to **96%** compared to 84% at the last formal actuarial valuation as at 31 March 2016. The estimated funding level had improved mainly because the Fund's asset returns since 1 April 2016 were higher than assumed at the 2016 valuation.

The next formal actuarial valuation of the Fund, as at 31 March 2019, sets employer contribution rates from April 2020 for the NCCPF employers, including Northumberland County Council.

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

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

At the most recent currency hedging review undertaken by Mercer in February 2019, the Panel resolved to retain the Fund's partially hedged position.

The Panel received information from the performance measurement service provider, Portfolio Evaluation, about NCCPF's performance in the one, three five and ten years ending 31 March 2018, with market commentary, comparisons to other pension fund investors and attribution analysis.

6. Infrastructure investment with Pantheon

Following a selection process, the Panel committed £40 million to Pantheon's Global Infrastructure Fund III (PGIF III), to maintain the Fund's 5% allocation to infrastructure.

The Panel subsequently received information that the fee rate chargeable for this commitment had decreased due to Pantheon's aggregation of other commitments to PGIF III made by pension funds within the BCPP Pool.

7. Equity protection strategy for Northumberland County Council Pension Fund

The Panel received information from the Fund's investment adviser, Mercer, regarding the pros and cons of implementing an equity protection strategy for NCCPF, to protect the Fund value as at 31 March 2019 i.e. the date of the next Fund actuarial valuation.

Due to the complexity and importance of the decision, the Panel considered equity protection at a separate meeting of the Panel held in July 2018, with advice and information provided by Mercer and Portfolio Evaluation.

The Panel resolved **not** to implement an equity protection strategy at that time due to its cost, complexity and lack of alignment with its strategy as a long term investor.

8. Panel decision to allocate 5% of Fund value to cash

Following the equity protection strategy decision, the Panel explored less complex options that could protect NCCPF's funding level against significant falls in equities before the next actuarial valuation as at 31 March 2019.

At its 5 October 2018 meeting, the Panel resolved to allocate up to 5% of Fund assets to cash (with a reduction from 60% to 55% in equities) as a short term **tactical** position. However, due to equity market falls later in October 2018, following consultation with the Chair and Vice Chair of the Panel, the allocation to cash was not then implemented.

At the 23 November 2018 meeting, the Panel reconsidered its decision and resolved to allocate 5% to cash **only if** the FTSE All-World index (sterling, total return) **exceeded** a threshold of **600** prior to the end of January 2018.

As the threshold was not reached by the end of January, no allocation to cash took place.

9. NCC Pension Fund's overweight position in index-linked gilts

The Panel received information about the Fund's overweight position in index-linked gilts (ILG), which had built up over several years due to relatively low returns on the Fund's corporate bond portfolio and ILGs being used as the makeweight to retain the Fund's overall allocation to bonds at 25% of the total.

With advice from Mercer, the Panel resolved to maintain the overweight position for the time being, and implemented closer quarterly monitoring.

10. Review of AVC provision for NCCPF

The Panel received information about ongoing work by Hymans Robertson to formally review the Fund's current Additional Voluntary Contribution (AVC) provision. The Panel noted Hymans' overall conclusion that Prudential should be retained as the Fund's open AVC provider.

11. Action Plan 2018 for NCC Pension Fund

The Panel monitored progress made against 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.

12. 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 2018 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 2019.

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

The Panel received information about the most recent internal control reports provided by the Fund's custodian and investment managers. These reports, prepared at least annually, describe the internal controls in place within the relevant financial institution to protect the interests of clients, including NCCPF.

14. Feedback from the NCC LGPS Local Pension Board

The Panel worked with the Board throughout the year, delegating detailed review of matters relating to LGPS administration, such as the code compliance checklist (see item 15, below), to the Board. The Board provided quarterly feedback with recommendations to the Panel, and an annual report.

15. The Pensions Regulator's code compliance checklist

The Panel received NCCPF's third annual assessment against the standards set out in the Pensions Regulator's Code of Practice Number 14.

16. Migration balancing items: over or under payments

The Panel received information about differences (i.e. "balancing items") carried forward from NCCPF's to STC's pensions administration system at the start of the shared service with TWPF, and approved actions to be taken following investigatory work by the STC shared administration service of the balancing items of £2 per month or over.

Results of the work were subsequently reported to the Panel. The majority of balancing items investigated did not represent incorrect pensions in payment and were corrected within the administration system. However, 38 members whose pensions were being overpaid and 35 members being underpaid were identified and corrected in March 2019, with all arrears due to members also paid in March 2019. None of the cumulative overpayments were deemed to be recoverable from members.

Further investigations will be carried out on the remaining lower value balancing items in due course.

17. General Data Protection Regulation (GDPR)

The Panel received information about changes made to data processing controls and procedures and the implications, for NCCPF, of the introduction of the General Data Protection Regulation (GDPR), from 25 May 2018.

18. Monitoring of breaches of the law and KPIs

The Panel received quarterly monitoring reports of recorded breaches of the law and KPIs for the Fund and delegated to the Board to conduct an in-depth review of both. None of the recorded breaches were deemed to be of material significance and therefore reportable to the Pensions Regulator.

19. Quarterly regulatory report

The Panel received the quarterly regulatory reports which are also provided to South Tyneside Council's Pensions Committee to keep members up to date with relevant LGPS regulatory changes.

20. GMP reconciliation: progress report

The Panel and Board received updates of the Guaranteed Minimum Pension (GMP) reconciliation work undertaken for the Fund by the STC shared administration service. GMP data had been submitted to HMRC to meet the deadlines set at 31 October and 31 December 2018.

21. NCCPF risk register

The Panel received the NCCPF risk register which had been restated to tie in with NCC's revised corporate risk management framework and risk scoring system, and delegated to the Board to conduct an in-depth review.

22. Updates to NCCPF's statutory policy statements

As required by the LGPS Regulations, NCCPF maintains and publishes certain written policy statements, and consults on changes where appropriate.

To maintain NCCPF's statutory policies, during 2018/19 the Panel approved changes as follows:

- **Funding Strategy Statement (FSS):** The NCCPF FSS was amended to protect the Fund and its employers by preventing repayment of a notional surplus that could now arise following the new regulatory requirement to repay a surplus to an employer on exit from the Fund;
- **Investment Strategy Statement (ISS):** The NCCPF ISS was updated to reflect changes made in the year including the Fund's new commitment to Pantheon's Infrastructure Fund, and the termination, following the Panel's review, of PIRC's contract as the Fund's share voting service provider; and
- **Governance Policy and Compliance Statement (GPCS):** The NCCPF GPCS was updated to reflect changes made following the implementation of the shared pensions administration service and increased governance for the Panel around BCPP Ltd.

23. Updates to NCCPF's other (non-statutory) policy statements

Following the requirements of the Pensions Regulator and best practice, NCCPF maintains a range of other (non-statutory) policy statements which apply to Panel and Board members and key officers involved in administering the LGPS. During 2018/19 the Panel approved minor changes to such policy statements as follows:

- **Conflicts of Interest Policy:** The NCCPF Conflicts Policy was updated to reflect the move to the shared pensions administration service;
- **Procedure for Reporting Breaches of the Law:** The NCCPF Breaches Procedure was updated to reflect the move to the shared pensions administration service;
- **Training Policy:** The NCCPF Training Policy was updated to reflect the requirements, from 3 January 2018, of the Markets in Financial Institutions Directive II (MiFID II).

24. Training

The Panel reviewed the 2018/19 training records of Panel and Board members, as well as officers involved in administering the LGPS at NCCPF.

The Panel and Board considered the results of the Fund's 2018/19 formal training needs analysis procedure.

25. Formal measurement of the performance of the investment adviser

Panel members conducted the annual formal assessment of the performance of the Fund's investment adviser, Mercer.

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

The Panel considered its own effectiveness as a decision making body and approved a formal annual report assessing its effectiveness.

27. MHCLG statistical release 2017/2018

Members received a report with details of the MHCLG statistical release on LGPS funds in England and Wales in 2017/2018 which compared NCCPF information with other funds' information.

28. Cost cap mechanism

The Panel received information about the LGPS cost cap mechanism, due for implementation from April 2019 but paused by Government in January 2019 following the ***McCloud judgement***. The McCloud judgement, handed down in December 2018, found the protections within the judges' and firefighters' 2015 pension schemes to be age discriminatory and therefore unlawful so appropriate remedies (i.e. scheme improvements) would be required. As similar protections were in all public service pension schemes following the major reform which introduced career average schemes, the judgement cast doubt over the future employer costs of *all* schemes. Therefore, application of the cost cap mechanism, which (it had previously been announced) was set to improve employee benefits, was paused by Government, pending an appeal process.

29. Age UK Northumberland

The Panel received information about Age UK Northumberland's exit from NCCPF on 31 March 2019.

30. Northumberland College

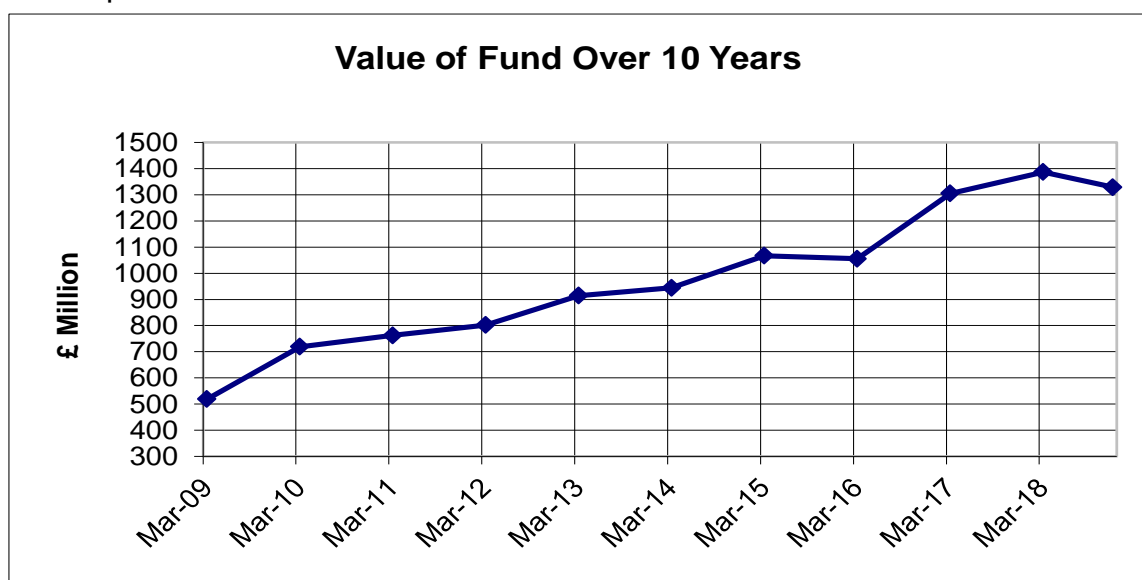
The Panel received information about the merger, in March 2019, of Northumberland College (a NCCPF employer) with Sunderland College (a TWPF employer). The LGPS assets and liabilities of Northumberland College transferred from NCCPF to TWPF following the merger.

31. Fund value

The Panel 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 2018 (unaudited)	1,329
31 March 2018 (audited)	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

The Fund returned **-3.6%** on investments in the **year to 31 December 2018**, and 9.5% per annum (annualised) in the three years to 31 December 2018 which was ahead of the Fund specific benchmark return of 9.2% (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 2018/19, and thanked Clare Gorman and the Pensions Team for the guidance and advice he has received over this very busy year.