

NORTHUMBERLAND COUNTY COUNCIL

PENSION FUND PANEL

At a meeting of the **Pension Fund Panel** held at County Hall, Morpeth on Friday, 28 February 2020 at 9.30 a.m.

PRESENT

Councillor J.G. Watson
(Chair, in the Chair)

MEMBERS

Bawn, D.L.
Kennedy, D.

Robinson, M.
Swithenbank, I.C.F.

TRADE UNION REPRESENTATIVES

Culling, A.

Storey, I.

OBSERVER REPRESENTATIVES

Dick, Ms. S.

Employees / Pensioner
Representative

PENSION FUND PANEL ADVISER MEMBER

Ms. S. Greenwood

Mercer Ltd.

OFFICERS IN ATTENDANCE

Mr. I. Bainbridge

Head of Pensions (Tyne and Wear
Pension Fund)

Mrs. C. Gorman

Principal Accountant (Pensions) -
Project Officer

Mrs. H. Bowers

Democratic Services Officer

Mr. C. Johnson

Principal Accountant

Mr. A. Lister

Principal Accountant (Pensions)

Ms. N. Turnbull

Democratic Services Officer

ALSO PRESENT AS OBSERVERS

J.I. Hutchinson

NCC LGPS Local Pension Board
Member

G.F. Moore

Chair of NCC LGPS Local Pension
Board

27. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Dunn, Ms. J.H. Adams (Observer) and J.P. Clark (NCC LGPS Local Pension Board Member - Observer).

28. DISCLOSURE OF MEMBERS' INTERESTS

The Local Government Pension Scheme is a national pension scheme set by central Government and the terms and conditions apply equally to all Scheme members. Panel members and attendees cannot influence the terms and conditions of the Scheme that apply to them, and they do not set the regulatory framework which governs it.

Membership of the Scheme does not represent a personal interest for Panel members, observers or officers in attendance.

Cllr Watson referred to his recent appointment (on 5 February 2020) as Partner Fund nominated non-executive director of BCPP Ltd, a paid role. This appointment could, potentially, lead to a conflict of interests for him in his role as Panel Chair should there be business discussed at the meeting relating to investment manager selection for NCCPF; no such business was anticipated at this meeting.

29. MINUTES

RESOLVED that:

- (a) the minutes of the meeting of the Pension Fund Panel, held on 20 September 2019, as circulated, be confirmed as a true record and signed by the Chair.
- (b) the minutes of the NCC LGPS Local Pension Board, held on Friday 18 October 2019, as circulated, be received for information.
- (c) the minutes of the NCC LGPS Local Pension Board, held on Friday 13 December 2019, as circulated, be received for information.

30. REPORTS OF THE SERVICE DIRECTOR - FINANCE

The Panel was invited to consider the following reports, enclosed as Appendix A:-

(1) Northumberland County Council Pension Fund: 2018/19 Annual Report and Accounts and external audit

The Panel received an update on the finalisation of the Northumberland County Council Pension Fund Annual Report and Accounts for the year to 31

March 2019, and received the external auditor's "Audit Results Report" (a copy of which is filed with the signed minutes).

The Principal Accountant (Pensions) confirmed that the Annual Report and Accounts had been approved at the meeting of the Audit Committee on 27 November 2019 and published before the statutory deadline of 1 December 2019. Due to the deferral of an unrelated matter by the Audit Committee on 24 July 2019 and subsequent decisions by NCC and South Tyneside Council regarding the proposed merger of NCCPF and Tyne and Wear Pension Fund (TWPF), note 1 and 24 had been amended in the accounts to explain the impact of the merger.

It was also reported that Mazars had recently been appointed as NCC's external auditor following the resignation of EY. The Audit Plan for the 2019/20 NCCPF accounts would be brought to the next meeting of the Panel.

RESOLVED that the report be accepted.

(2) Action Plan 2019

The Panel was provided with a copy of NCCPF's Action Plan 2019, which had been finalised in October 2019.

The Principal Accountant (Pensions) - Project Officer explained that the Action Plan 2019 would normally have been considered by the Panel at its meeting in February 2019 but had been deferred and then delegated to the Service Director - Finance in consultation with the Chair and Vice-Chair of the Pension Fund Panel, due to the uncertainty, in February 2019, around whether merger of NCCPF with TWPF would be pursued.

The Action Plan had been reviewed by the LGPS Local Pension Board on 18 October 2019 and had also been previously circulated electronically to Panel members.

RESOLVED that the report be accepted.

Councillor Kennedy arrived at 9.39 a.m.

(3) Scheme Advisory Board's review of LGPS governance: Phase II

Information was provided about Phase II of the Scheme Advisory Board's review of LGPS governance, which made recommendations for changes to the governance regime for the LGPS in England and Wales.

The Principal Accountant (Pensions) - Project Officer provided a brief history of the review, the four governance models under consideration and noted that the majority of consultation respondents had favoured 'Option 2: greater ring fencing of the LGPS within existing structures'.

Paragraph 3.14 of the report compared NCCPF's position with the recommendations from the Phase II report, in so far as comparison was possible given the lack of detail in the recommendations.

It was noted that NCC was unlikely to be a LGPS Administering Authority by the time compliance was required, due to the anticipated merger.

RESOLVED that the report be accepted.

(4) MHCLG statistical release 2018/19

Information was provided about the results of MHCLG's statistical release on LGPS funds in England and Wales in 2018/19, and compared Northumberland County Council Pension Fund's experience with that of other funds.

The Principal Accountant highlighted a number of key points contained in paragraph 4.7 of the report, and a number of areas where NCCPF differed from the average results for the 87 funds in England and Wales, which were set out in paragraph 4.10 of the report. Some differences were due to the accounting treatment required for the asset transfer payable in relation to Northumberland College's exit from NCCPF in March 2019.

RESOLVED that the report be accepted.

(5) The Pensions Regulator's "cohort review"

The Panel received information about the Pensions Regulator's report "Governance and administration risks in public service pensions schemes: an engagement report" which was published in September 2019.

The Regulator's cohort review had commenced in 2018 to engage with ten LGPS funds to examine their policies and practices. A year later, the engagement report was published, analysing the findings, and containing 47 recommendations.

NCC's LGPS Local Pension Board had requested that officers compare NCCPF's policies and practices against the recommendations in the report to identify any lessons to be learned or improvements to be made.

The Principal Accountant (Pensions) - Project Officer concluded that the comparison and subsequent Board review had not resulted in any proposals to change NCCPF's policies and practices at this stage.

RESOLVED that the report be accepted.

(6) Strategic Objectives for Investment Consultancy Services

The Panel was provided with an update on the introduction of strategic objectives for Mercer following the publication of the Competition and Markets Authority (CMA) Order in June 2019 in relation to the investment consultancy market.

At the meeting of the Pension Fund Panel on 20 September 2019, delegated authority had been given to the Service Director - Finance, in consultation with the Chair and Vice-Chair of the Pension Fund Panel, to set the strategic objectives for Mercer, the investment adviser, to ensure the CMA's deadline could be met.

The Principal Accountant (Pensions) explained that Mercer had provided a set of model strategic objectives which had been used as a starting point and draft strategic objectives from a number of other LGPS funds had also informed the NCCPF objectives. NCCPF's final objectives, agreed with Mercer, included an objective in relation to merger and one covering value for money. The NCCPF objectives were agreed with the investment adviser prior to the 10 December 2019 deadline.

RESOLVED that the report be accepted.

(7) Training records

A report was submitted to enable the Panel to undertake an annual review of the training records of Pension Fund Panel members, Local Pension Board members and key officers, to assess the adequacy of knowledge and skills acquired.

Following the cancellation of the meeting on 6 December 2019 due to inquoracy, individual training records had been emailed to Panel members for review.

The Chair confirmed that he was satisfied with the training undertaken by Panel members to enhance their knowledge and skills to undertake their Panel duties. In view of the imminent merger, it was not thought that any further training was required at this stage.

RESOLVED that the report be accepted.

(8) Training needs analysis

Information was received about the results of the annual formal training needs analysis (TNA) procedure.

A replacement copy of Appendix 9 was circulated at the meeting to clarify the original document.

The Principal Accountant commented that the Appendix 9 analysis related to Panel members only as their role and responsibilities differed to Board members. A separate analysis of the results for Board members would be considered at the next meeting of the LGPS Board.

For Panel members, an 'average score' and an 'average top 3 score' for each area had been calculated and used to analyse results. As previously requested, the results for 2019/20 and 2018/19 were provided to enable comparison and an increase or decrease in score was highlighted in a separate column.

The Panel noted there were no areas coloured red which would have indicated that Panel members had no or basic knowledge and understanding of those areas.

RESOLVED that the report be accepted.

(9) Review of MiFID II documentation and status

The report confirmed that following a review in November 2019 there were no changes to NCCPF's circumstances, which should be notified to the relevant financial institutions, because they could affect the professional client status opt ups (under MiFID II) that had already been confirmed to NCCPF by those financial institutions.

It was noted that, although there had been a change in Section 151 Officer, the Deputy Section 151 Officer had been in post for a considerable time and continued to be involved in the process. No reliance had been placed on the previous Section 151 Officer. Training requirements for the new Section 151 Officer would be considered.

RESOLVED that the report be accepted.

(10) Outcomes of the October and December 2019 meetings of the NCC LGPS Local Pension Board

The report provided information to the Panel about outcomes and proposals from the meeting of NCC's LGPS Local Pension Board held on 18 October 2019 and 13 December 2019.

Gerard Moore, Chair of the NCC LGPS Local Pension Board, gave a brief summary of the contents of the report which included conclusions on the items referred by the Panel, recommendations, other outcomes from the Board meetings, assurances gained and information to note.

He reported that training had been provided by Tyne and Wear Pension Fund, earlier in February, on cyber security in an event held for both NCCPF and with Tyne and Wear Pension Fund committee and board members.

Reference was made to the problems being experienced by another local authority that had been the subject of a recent ransomware attack. The LGPS Board Chair stated that confirmation had been provided, at the cyber security event that pensions could be paid by cheque, if necessary, if there were problems with electronic systems at South Tyneside Council.

RESOLVED that:

- (a) The report be accepted;
- (b) The recommendation regarding identification of training requirements for the new Section 151 Officer be identified to ensure continued MiFID II compliance, be noted; and
- (c) Further information on the remaining 62 annual benefits statements for 2019, yet to be despatched, be considered by the Board at its meeting on 23 March 2020, and the assurances gained by the Board at 18 October 2019 and 13 December 2019 meetings, be noted.

(11) Recording breaches and data processing: quarterly monitoring

The report provided information about breaches of the law and monitoring of data processing which had occurred in and before the quarter to 31 December 2019.

RESOLVED that:

- (a) The information be noted, and
- (b) The NCC LGPS Local Pension Board be requested to consider breaches of the law for the quarter to 31 December 2019 at its next meeting and report back to the Panel.

(12) Reports on internal controls operated by fund managers and the custodian

The report provided information about the most recently available internal control reports provided by Northumberland County Council Pension Fund's custodian and its investment managers.

The Principal Accountant confirmed that the reports had been reviewed by officers and, although there were some minor control weaknesses, no significant control weaknesses had been noted. He reported that the management responses and the nature of the minor weaknesses identified provided assurance of no significant failings.

Whilst one of the fund managers did not have an internal control or equivalent report, it had sent a report from its custodian which referred to its internal

controls for the 12 months to 30 September 2019. No new managers had been taken on in recent years.

RESOLVED that the report be accepted.

(13) Formal measurement of the performance of the investment adviser

The Panel was required to formally assess the performance of the Pension Fund Panel investment adviser, Mercer, in the year to 31 March 2020, as recommended by CIPFA's guidance on investment decision making in the LGPS.

The Principal Accountant referred to the 'scorecard' contained within the papers as Enclosure 1 and invited members to provide comments on page 1, if appropriate, whilst scores were required against the areas identified on pages 2 to 4.

The deadline for submission of scorecards was 3 April 2020 to enable results to be analysed and reported to the Panel meeting on 19 June 2020.

RESOLVED that the report be accepted.

(14) Formal assessment of the effectiveness of the Pension Fund Panel

The Pension Fund Panel received information about the requirement to formally assess the effectiveness of the Panel itself as a decision making body on an annual basis, and approval was sought for the draft formal assessment for 2019/20.

The Principal Accountant (Pensions) - Project Officer referred to the significant areas of work undertaken by the Panel in 2019/20 which were outlined at paragraph 14.3 of the report.

The review had concentrated on the controls in place, when the decisions had been made, to prevent poor decisions being made. She commented that it was difficult to judge the outcome of investment decisions, because the timescale could change an outcome from one previously judged as good into poor, and provided currency hedging as an example.

The formal assessment would be included within the Annual Report and Accounts for 2019/20 and included a list of achievements which included: unanimous support for merger by full Council, and unanimous agreement to increase the level of prudence within the 2019 actuarial valuation.

RESOLVED that the formal assessment of the Pension Fund Panel as a decision making body, as set out within Appendix 12, be approved.

(15) LGPS Advisory Board's draft Guidance on Responsible Investment

Information was provided about the first part of the LGPS Advisory Board's guidance on responsible investment published for consultation in November 2019.

A statement from the Scheme Advisory Board (SAB) was tabled at the meeting. It explained that due to the decision awaited from the Supreme Court on the Palestine Solidarity Campaign and the need for more certainty about Government's proposals under the Pension Schemes Bill, it would not address the issue of how fiduciary duty applied to investment decision makers in the LGPS, until the aforementioned matters were resolved. SAB intended to restructure the proposed guidance on responsible investment and would circulate a draft to stakeholders for comment in due course.

It was also anticipated that:

- MHCLG would issue guidance in the future to bring the LGPS in line with reporting requirements for larger trust based schemes.
- The Pension Schemes Bill could make it mandatory to report the climate change strategies for pension schemes.
- The United Nations Climate Change Conference in November 2020 could trigger the implementation of legislation to force change in UK corporate behaviour.

RESOLVED that the report be accepted.

(16) Tyne and Wear Pension Fund's quarterly regulatory report

The Panel received a copy of TWPF's quarterly regulatory reports dated 19 November 2019 and 4 March 2020. They were also provided to South Tyneside Council's Pensions Committee to keep members up to date with relevant LGPS regulatory changes.

Items of particular note were highlighted within paragraph 16.2 of the report.

The Panel gained assurance that the main topics included in TWPF's report had all been included in NCCPF Panel reports at this or previous meetings.

RESOLVED that the report be accepted.

(17) Fund performance and total Fund value

Information was provided to the Panel about the Fund performance in the quarters to 30 September 2019 and 31 December 2019 and the total Fund value at those dates.

RESOLVED that the report be accepted.

31. EXCLUSION OF PRESS AND PUBLIC

RESOLVED that

- (a) under Section 100A (4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following item on the Agenda as they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A of the 1972 Act and as indicated below:

Agenda Items	Paragraph of Part I of Schedule 12A
7 - 8	3
	Information relating to the financial or business affairs of a particular person (including the Authority holding that information).

AND

- (b) the public interest in seeking this exemption outweighs the public interest in disclosure because:-
 - (i) it contains information that, if in the public domain, could affect the preferential rates the Fund is charged;
 - (ii) because the information would not be provided at future meetings if it were considered in public; and
 - (iii) because the industry standard is to keep this information confidential.

32. REPORTS OF THE SERVICE DIRECTOR - FINANCE

The Panel considered the following report, which were not reproduced, were coloured pink and marked “Not For Publication”, a copy of which is filed with the signed minutes as Appendix B:-

(1) Results and progress made for the 2019 valuation

Information was presented about the results, progress so far and the remaining steps to be followed to complete the 2019 actuarial valuation of NCCPF.

The Principal Accountant (Pensions) - Project Officer outlined the processes to date including decisions made at the Panel meeting on 20 September 2019.

She explained in detail the parameters within which the actuary had been asked to prepare individual employer contributions. She noted that decisions

had been made by the Panel without knowledge of the impact on individual employers.

The Principal Accountant (Pensions) disclosed a potential personal and prejudicial interest as he is a board trustee of Three Rivers Learning Trust and left the meeting whilst the letter, included as Appendix 3, was considered.

The Panel noted that a complaint had been received from the Business Director at Three Rivers Learning Trust. Among other things, the complaint raised concerns over NCCPF's arrangements for dealing with conflicts of interests.

The Chair of the LGPS Local Pension Board expressed the view that conflict management processes at NCCPF were robust and transparent and consistent with best practice good governance signposting. He also commented that standards at Northumberland were higher than he had observed elsewhere.

The Panel was satisfied with the procedures followed in completing the 2019 valuation and agreed that a response to the complaint be drafted by the Principal Accountant (Pensions) - Project Officer, after obtaining input from the actuary and Tyne and Wear Pension Fund's legal officer, and issued following consultation with the Chair and Vice-Chair of the Pension Fund Panel.

RESOLVED that the report be accepted.

(2) Covenant risk assessment of NCCPF employers

The Panel was provided with information about the work done in 2019 and 2020 to assess the covenant risk of NCCPF employers, as part of the 2019 actuarial valuation process.

The Principal Accountant (Pensions) - Project Officer gave a detailed explanation of the data contained in the enclosed A3 spreadsheet and the reasons why employers had been allocated into either the orphan or subsumption funding target group. The allocation was dependent on their strength of covenant (or covenant of the guarantor) and whether their participation in NCCPF was expected to be finite or indefinite.

For most employers, deficits were to be collected over the average future working lifetime of their active membership. This helped minimise the potential default risk from the employers participating in NCCPF.

RESOLVED that the report be accepted.

Councillor Bawn left the meeting at 11.05 a.m. when a short break was held.

(3) Northumberland County Council Funding Strategy Statement

The report sought approval to update NCC's Funding Strategy Statement (FSS), dated March 2020, a draft of which was attached as Appendix 4 to the report.

The Principal Accountant (Pensions) Project Officer highlighted the key changes to the Funding Strategy Statement which were contained in paragraph 3.3 of the report.

RESOLVED that:

- (a) the NCC Funding Strategy Statement attached as Appendix 4 to the report, be approved.
- (b) delegated authority be given to the Service Director - Finance, in consultation with the Chair and Vice-Chair of the Pension Fund Panel, to make any further changes required as a result of consultation with the participating employers, DfE and trade unions.

(4) Merger of NCCPF with TWPF

The Panel was provided with an update about the merger of NCCPF and Tyne and Wear Pension Fund (TWPF) and the Panel's view was sought on its preferred approach to trading during the annulment risk period.

The risk of annulment of the NCCPF/TWPF Merger Regulations was recognised by the Panel but seen as minor in comparison to the investment risk which would fall, post-merger, on the former NCCPF employers should TWPF be requested to defer all trading of the former NCCPF assets from the date of the Merger Regulations coming into force until the date the annulment risk falls away.

The due diligence work which had already been undertaken to assess the pros and risks of the merger was discussed. The Panel noted that an action plan was being developed, with project management services to be provided by Aon. Officers of NCCPF/TWPF would carry out the tasks within the action plan following the launch, by Government, of the consultation on the Merger Regulations.

RESOLVED that:

- (a) South Tyneside Council, in its capacity as LGPS administering authority, be requested to take full responsibility for the former NCCPF assets (including trading in those assets, if appropriate) with effect from the date the NCCPF/TWPF Merger Regulations come into force;

- (b) The Panel agreed that the merger due diligence process was sufficiently progressed to confirm its satisfactory conclusion and therefore merger could proceed; and
- (c) The NCC LGPS Local Pension Board be requested to review the detailed merger action plan, if available by its meeting on 23 March 2020, and report back to the Panel.

(5) Border to Coast Pensions Partnership (BCPP) pooling arrangement

The Panel received an update on progress made by BCPP Ltd to date, and the implications for NCCPF and sought an endorsement of BCPP Ltd's Responsible Investment Policy and Corporate Governance and Voting Guidelines.

The Principal Accountant (Pensions) - Project Officer stated that NCCPF had held back on investing in private markets via BCPP Ltd because of the planned merger with Tyne and Wear Pension Fund.

The Principal Accountant (Pensions) - Project Officer explained that the Chair of the Panel had been formally appointed as non-executive director (NED) of BCPP Ltd in February 2020, after which he had stepped down from the BCPP Joint Committee (JC). The Panel had passed a resolution in September 2019 to appoint the Vice Chair as NCCPF's representative on the BCPP JC, so he could take over the role when the Chair stepped down.

All Partner Funds were being asked to endorse BCPP Ltd's Responsible Investment Policy.

RESOLVED that BCPP Ltd's Responsible Investment Policy and Corporate Governance and Voting Guidelines (attached as Appendices 7 and 8 to the report), be endorsed.

(6) Equitable Life transfer to Utmost

The Panel received information about the transfer of LGPS members' Additional Voluntary Contributions (AVC) from Equitable Life to Utmost Life and Pensions.

The Local Government Association had sought advice on the appropriate course of action to secure value for money for AVC members. All AVC holders had been informed.

RESOLVED that the report be accepted.

(7) BlackRock Property Fund fees

The Panel received an update on a request made to BlackRock to reduce the fees payable by NCCPF on its investment in the BlackRock Property Fund.

The outcome of the officer led discussions over fees was reported.

RESOLVED that the report be accepted.

(8) Transition costs to implement NCCPF's new strategic asset allocation

The Panel received information on the transition costs incurred to implement the new target asset allocation for NCCPF (reducing the allocation to UK equities), which was set at the Panel meeting held on 12 July 2019.

With advice from Mercer and following discussion with Legal and General the asset allocation change had been implemented in three tranches, with the last tranche being traded on 1 October 2019. The transaction costs in trading the three tranches had amounted to £256,234. Mercer's view was that these costs were reasonable.

RESOLVED that the report be accepted.

(9) Assessment of newly forming academy and reassessment of academies where there are concerns over viability

The Panel received information about the categorisations and applicable deficit recovery periods for academy conversions of two Northumberland schools, Warkworth Church of England Primary School and Stobhillgate First School, which were due to convert to academy status. They also considered reassessments of the viability of four existing academies in NCCPF.

RESOLVED that the report be accepted.

(10) CEM's Investment Benchmarking report

Information and comments were provided on the interim "NCCPF Investment Benchmarking Results" prepared by CEM Benchmarking, for the five year period ending 31 March 2019.

RESOLVED that the report be accepted.

(11) NCC LGPS: the Pensions Regulator's Code compliance checklist

The Panel received information about NCCPF's fourth assessment against the standards set out in the Pensions Regulator's Code of Practice number 14.

All LGPS authorities are required to assess themselves against the legal requirements contained in the LGPS regulations and the standards set out in tPRs Code of Practice number 14 (CoP14). The Panel was asked to delegate the review of the checklist to the NCC LGPS Local Pension Board and report back to the Panel.

RESOLVED that:

- (a) The information be noted, and
- (b) The NCC LGPS Local Pension Board be requested to review the Code of Practice number 14 assessment at its next meeting on 23 March 2020 and report back to the Panel.

(12) Administering Authority Discretions Policy

The Panel received information about aligning NCCPF's Administering Authority Discretions Policy with TWPF's Discretions Policy.

NCCPF's Discretions Policy had been adopted in November 2017 to align with Tyne and Wear Pension Fund's Policy at that time, to make shared services as efficient as possible. Since then, the two policies had become out of line and although the differences were small, it was thought best to align NCCPF's policy with TWPF's Policy prior to merger.

In November 2019, Aon had been engaged to compare the policies and an email from Aon providing the outcome of that comparison was set out in the report on page 51.

RESOLVED that delegated authority be given to the Service Director - Finance in consultation with the Chair and Vice-Chair of the Pension Fund Panel to revise NCCPF's Discretions Policy in line with TWPF's Policy.

RESOLVED that the report be accepted.

(13) RPI consultation and potential impact on NCCPF's index-linked gilts

A report was received which contained advice from Mercer that the Panel should consider reducing the Fund's exposure to index-linked gilts, moving 50% of the holding into corporate bonds.

This item was considered in detail later in the meeting as part of Mercer's presentation.

RESOLVED that the report be accepted.

(14) Transaction costs

Information was provided about the transaction costs incurred by the fund managers in the quarters to 30 September 2019 and 31 December 2019.

RESOLVED that the report be accepted.

(15) Mercer's ratings of NCCPF's investment managers, currency hedging update and post-merger transaction costs

The report provided Panel members with Mercer's ratings of all of the Fund's investment managers, a currency hedging update and an estimate of potential post merger transaction costs. A detailed presentation on the reports was considered under the next item on the agenda.

RESOLVED that the report be accepted.

33. MERCER'S REPORTS ON NCCPF INVESTMENT MANAGERS, CURRENCY HEDGING REVIEW, TRANSITION COSTS OF MERGER, ADVICE ON INDEX-LINKED BOND HOLDINGS

The Panel noted Mercer's papers on NCCPF's investment managers and the currency hedging update. Susan Greenwood advised that the Panel take no action, at this stage, with regard to manager selection or the currency hedging in place.

Susan Greenwood provided information on the anticipated post-merger transactions costs that would be incurred due to repositioning NCCPF's assets in line with TWPF's investment strategy. Mercer had estimated those transaction costs at c. £1 million, coming mainly from buying corporate bonds which were relatively expensive to trade. Mercer had also estimated post-merger transactions costs relating to former NCCPF assets of £3 million to £4 million which will be incurred in moving assets into BCPP Ltd; these costs would have been incurred irrespective of merger.

Susan Greenwood discussed the Government's anticipated consultation on changes to the inflation linkage on index-linked gilts (ILG), and the potential future impact on the value of NCCPF's holdings in ILG. Her view was that when ILG were linked to CPI instead of RPI there was a risk that their value would fall, though she could not predict the scale and timing of that fall.

Susan Greenwood reminded the Panel that NCCPF's allocation to ILG was strategic, and any switch out of ILG should be into an asset class with similar defensive characteristics. Therefore, Mercer recommended moving 50% of NCCPF's holdings in ILG into Legal and General's Investment Grade Credit index fund (LGIM's IGC).

