



Complete Agenda

Democratic Service
Swyddfa'r Cyngor
CAERNARFON
Gwynedd
LL55 1SH

Meeting

PENSIONS COMMITTEE

Date and Time

1.00 pm, THURSDAY, 15TH SEPTEMBER, 2016

Location

Ystafell Gwyrfai, Council Offices, Caernarfon, Gwynedd. LL55 1SH

Contact Point

Lowri Haf Evans

01286 679878

lowrihafevans@gwynedd.llyw.cymru

(DISTRIBUTED Wednesday, 7 September 2016)

PENSIONS COMMITTEE

MEMBERSHIP (7)

Plaid Cymru (3)

Councillors

Peredur Jenkins

W. Tudor Owen

Simon Glyn

Independent (2)

Councillors

Trevor Edwards

John Pughe Roberts

Labour (1)

Councillor Glyn Thomas

Liberal Democrats (1)

Councillor Stephen W. Churchman

Co-opted Members

Hywel Eifion Jones
Margaret Lyon

Anglesey County Council
Conwy County Borough Council

Aelodau Ex-officio / Ex-officio Members

Chairman and Vice-Chairman of the Council

A G E N D A

1. **APOLOGIES**

To receive any apologies for absence

2. **DECLARATION OF PERSONAL INTEREST**

To receive any declaration of personal interest

3. **URGENT ITEMS**

To note any items which are urgent business in the opinion of the Chairman so that they may be considered

4. **MINUTES**

4 - 6

The Chairman shall propose that the minutes of the meeting of this committee held on 9.6.2016 to be signed as a true record

5. **TREASURY MANAGEMENT 2015/16**

7 - 11

Consider the report of the Investment Manager

6. **FIDELITY FEES**

12

Consider the Head of Finance Report

PENSIONS COMMITTEE, 09.06.2016

Present: Councillors: Stephen Churchman, Trevor Edwards, H. Eifion Jones (Anglesey County Council Representative), Margaret Lyon (Conwy County Borough Council Representative), W Tudor Owen (Chairman) and Peredur Jenkins

Officers: Dafydd Edwards (Head of Finance Department), Caroline Roberts (Investment Manager), Nicholas Hopkins (Pensions Manager) and Lowri Haf Evans (Member Support and Scrutiny Officer).

1. ELECTION OF CHAIR

Resolved to elect Councillor Stephen Churchman as chairman for the year 2016 - 2017

Councillor Stephen Churchman thanked Councillor Tudor Owen for his work and support as former chair of the Pensions Committee.

2. ELECTION OF VICE-CHAIR

Resolved to elect Councillor Peredur Jenkins as vice-chair for the year 2016 - 2017

3. APOLOGIES

Apologies were received from Councillors Seimon Glyn, John P. Roberts and Glyn Thomas

4. DECLARATION OF PERSONAL INTEREST

None to note

5. URGENT ITEMS

None to note

6. MINUTES

The Chairman signed the minutes of the previous meeting of this committee, held on 17 March 2016, as a true record.

7. PRIVATE EQUITY REPORT

- a) Submitted - the report of the Investment Manager, requesting the Pensions Committee to confirm a direct investment in the Partners Group Direct Equity 2016 Fund in accordance with the opinion of the Panel held on 19.5.16.

Following a presentation and discussion with Hymans Robertson at the Investment Panel regarding the possible options for a further commitment to private equity to attain the strategic benchmark of 5%, the panel's opinion was to invest £25 million in a direct equity fund with Partners Group.

It was reported that the matter had already been discussed by the Investment Panel, but that a formal decision was required by the Pensions Committee.

- b) In response to a question regarding the fees paid for the investment, it was reported that the fee was based on the investment amount. It was added that the fee would have been discussed as the contract was made, but the suggestion to share relevant information was accepted. It was suggested that a request be made for Hymans Robertson to provide the information about the fees and for the Investment manager to share that directly with the Councillors.

RESOLVED that the Pensions Committee confirms a direct investment with Partners Group Direct Equity 2016 Fund in accordance with the opinion of the Investment Panel

8. INVESTMENT POOLING FOR LGPS PENSION FUNDS IN ENGLAND AND WALES

- a) Submitted – the report of the Head of Finance Department providing an update on the investment pooling project for Local Government Pension Scheme funds (LGPS) in Wales.

Members were reminded that a proposal for a Wales Pool had been submitted to the Department for Communities and Local Government (DCLG) in February 2016. It was noted that the proposal addressed each of the stated criteria except for scale where DCLG had indicated that they anticipated pools with a minimum of £25bn of assets (total assets across the Welsh funds were in the region of £12-13bn at March 2015). He added that the proposal had also stressed the substantial work done to date and the unique situation of collaboration across Wales.

It was reported that the response to the proposal from DCLG strongly supported the intended use of a formal regulated vehicle and acknowledged the unique characteristics of a Wales Pool. The funds were encouraged to work up the proposal in more detail for submission in July.

It was noted that Councillor Stephen Churchman and the Head of Finance Department had attended a meeting of the Wales Pool Chairs in Cardiff on 13 May. A brief update was provided on some of the matters discussed.

- Confirm the intention to proceed to use a third party operator for joint-investment
- It was confirmed that individual funds would continue to have control over their own investment strategies (allocating to categories of assets)
- Investment transfer discussions needed to be held to consider arrangements and implementation
- That there was a need to engage regarding the role of Pension Boards, and whether a Pension Board for Wales would be needed
- A Joint-committee (including Chairs of Pension Committees and Chief Finance Officers) would be established to monitor and challenge the work of the operator
- The Government would not give guidance in terms of the % of the fund to be invested in infrastructure - the Pool would be expected to make a statement of ambition (5% - 10%).
- It was difficult to identify savings from the process - the Government would not insist that the Pool would adhere to its estimated saving

It was reported that the Head of Finance Department of Gwynedd Council, along with two other officers from the Wales Pool and support from Hymans, would make a presentation to the Government Panel at HM Treasury in London on 16 June.

It was also noted that the Chair of the Gwynedd Pensions Committee and the Head of Finance Department would attend the next meeting of the Wales Pool Chairs in Cardiff on 27 June to agree on the way forward, and would attend a meeting of the Gwynedd Pension Board on 29 June to report on relevant progress.

- b) In response to a question regarding what the costs of 'withdrawing' from the Fund's current investments would be, it was reported that this would be dependent on the operator, the investment managers and their investment portfolio.
- c) In response to a question regarding who would choose the Pool managers, (fund managers), it was reported that the operator would choose the managers, with the joint-committee influencing when monitoring and challenging the work of the operator.
- ch) In response to a question regarding what the likely percentage of money that should be invested in infrastructure should be, and to a comment that consideration should be given to local advantages and opportunities, it was noted that the Fund would be expected to note its proposed percentage to infrastructure in the presentation to DCLG in July. Logically, a medium-term percentage of 5% would be considered, with a long-term gradual increase towards 10%. In terms of considering local investment opportunities, we must seek the best for the fund in order to maximise expectations.

In the context of investing in local infrastructure, it was highlighted that there was a need to ensure that north Wales gets its share of investments, and it was suggested to give guidance that every opportunity arising in north Wales should be investigated - as a matter of principle.

- d) In response to a question regarding the potential savings of combining Welsh funds, the Head of Finance Department noted that there was a need to include an estimate of the potential savings of transfer costs in the presentation in July, but that this was illustrative.
- dd) It was reported that every fund in Wales would have to compromise to ensure one system and encouragement should be given to collaborating and adapting to become one.

It was added that the Gwynedd Pension Fund was one of the best in the county and that the performance of others need not affect this. It must be ensured that the value of the Fund remained a priority field.

Resolved to accept the information and delegate the power to the Head of Finance Department, in consultation with the Chair of the Committee, to agree on the content of the Wales Pool presentation to the DCLG in July 2016.

The meeting commenced at 2pm and concluded at 3:15pm

Agenda Item 5

MEETING	PENSIONS COMMITTEE
DATE	15 SEPTEMBER 2016
PURPOSE	CIPFA'S CODE OF PRACTICE REQUIRES THAT A REPORT BE PRODUCED ON THE RESULTS OF THE COUNCIL'S ACTUAL TREASURY MANAGEMENT ON BEHALF OF THE PENSION FUND.
TITLE	TREASURY MANAGEMENT 2015/16
AUTHOR	CAROLINE ROBERTS, INVESTMENT MANAGER

1. Introduction and Background

CIPFA's revised Code of Practice on Treasury Management was adopted by the Council on 1st March 2011 and the Council fully complies with its requirements. The Code requires that I report on the results of the Council's actual treasury management in the previous financial year against expectations.

In accordance with the Welsh Assembly Government's Statutory Guidance on Local Government Investments, which requires an authority to produce an Annual Investment Strategy, it was considered best practice for the Gwynedd Pension Fund (the "Fund") to adopt Gwynedd Council's Treasury Management Strategy Statement (TMSS) for 2015/16, as amended for the purpose of the Pension Fund. The Pensions Committee approved the TMSS at its meeting on 24 March 2015. As a result, I am required to report on the results of the actual treasury management in 2015/16 against expectations.

2. Investment Activity

The Welsh Assembly Government's (WAG's) revised Investment Guidance came into effect on 1st April 2010 and reiterated the need to focus on security and liquidity, rather than yield. It also recommended that strategies include details of assessing credit risk, reasons for borrowing in advance of need and the use of treasury advisers.

Pension Fund Balances	Balance on 31/03/2015 £m	Balance on 31/03/2016 £m
Balances	13.4	21.1

As requested by the Pensions Committee on 24 March 2015, the pension fund's money was pooled with the Council's general cashflow. As agreed at the Pensions Committee on 17 March 2016 this arrangement continues in 2016/17. Interest rates are still very low but there is no reason to change this decision.

The table below shows a summary of where this pooled money was invested during 2015/16.

Investments	Balance on 01/04/15 £'000	Investments Made £'000	Maturities/ Investments Sold £'000	Revalue to Fair Value £'000	Balance on 31/03/16 £'000	Average Rate %
Call Accounts with Banks with ratings of A- or higher - short term	18,420	146,604	(150,892)	0	14,132	0.43
Investments with Banks and Building Societies with ratings of A- or higher - short term	37,002	114,018	(101,020)	0	50,000	0.65
Building Society Covered Bonds – long term	1,121	1,082	0	70	2,273	1.59
Money Market Funds	0	247,300	(247,300)	0	0	0.47
TOTAL INVESTMENTS	56,543	509,004	(499,212)	70	66,405	0.63
Increase/ (Decrease) in Investments £m					9,862	

Security of capital has remained the Authority's main investment objective. This was maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating was A- across rating agencies Fitch, S&P and Moody's), credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average Credit Risk Score	Value Weighted Average Credit Rating	Time Weighted Average Credit Risk Score	Time Weighted Average Credit Rating	Average Life (days)
31/03/15	5.24	A+	3.62	AA-	64
30/06/15	4.18	A+	2.95	AA	102
30/09/15	4.94	A+	3.44	AA	104
31/12/15	4.62	A+	3.29	AA	91
31/03/16	4.34	AA-	3.57	AA-	96

Scoring:

-Value weighted average reflects the credit quality of investments according to the size of the deposit

-Time weighted average reflects the credit quality of investments according to the maturity of the deposit

-AAA = highest credit quality = 1

-D = lowest credit quality = 26

-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Counterparty Update

The transposition of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities and pension funds. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.

Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS), Deutsche Bank, Bank Nederlandse Gemeeten and ING. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.

Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thuringen.

S&P reviewed UK and German banks in June, downgrading the long-term ratings of Barclays, RBS and Deutsche Bank. As a result of this the Authority made the decision to suspend Deutsche Bank as a counterparty for new unsecured investments. S&P also revised the outlook of the UK as a whole to negative from stable, citing concerns around the referendum on EU membership and its effect on the economy.

At the end of July 2015, Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.

In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the Royal Bank of Scotland and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their ratios over the year.

The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016, following the publication of many banks' 2015 full-year results, Arlingclose advised the suspension of Deutsche Bank and Standard Chartered Bank from the counterparty list for unsecured investments. Both banks recorded large losses and despite improving capital adequacy this will call 2016 performance into question, especially if market volatility continues. Standard Chartered had seen various rating actions taken against it by the rating agencies and a rising CDS level throughout the year. Arlingclose will continue to monitor both banks.

Update on Investment with Heritable Bank

The authority has now recovered 98% of its investment in Heritable Bank. It is likely that further distributions will be received and that the full amount should be recovered. The timing of future distributions is unclear and depends on settlement of the ongoing court case.

3. Recommendation

The Pensions Committee is asked to receive the report on investment of the Fund's cash, pooled with the Council's cash, in 2015/16 for information.

Credit Score AnalysisScoring:

Long-Term Credit Rating	Score
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10

The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit

The Authority aimed to achieve a score of 7 or lower, to reflect the Authority's overriding priority of security of monies invested and the minimum credit rating threshold of A- for investment counterparties.

Agenda Item 6

COMMITTEE: **PENSIONS COMMITTEE**

DATE: **15 September 2016**

TITLE: **Fidelity Fees**

PURPOSE: **To accept the offer of Fidelity's new fee scale**

AUTHOR: **Dafydd L Edwards, Head of Finance**

1. At the Committee meeting on 9 June 2016, members were updated regarding the Welsh LGPS funds Investment pooling plans.
2. At the Fund's Investment Panel meeting in London on 28 July 2016, I reported confidentially on significant savings in BlackRock's fees after pooling the Welsh funds' passive equity investments.
3. At the same meeting, Fidelity mentioned their new fees for actively managed global equity investments for pools.
4. Subsequently, Fidelity agreed that existing clients such as the Gwynedd Fund could move onto their new fee scale now, in advance of the establishment of the Wales pool's actively managed equity investment arrangements.
5. A confidential paper, prepared by Paul Potter of Hymans Robertson, was circulated to all members of the Pensions Committee early in September.
6. Hymans' paper compared the current fee paid by the Gwynedd Fund against the new proposed fee, in % terms for each £m invested annually, and provided confidential advice on the suitability of Fidelity's new fees for our Fund.
7. Having prudently considered the risks involved, it is recommended that the Committee accept the offer of Fidelity's new fee scale forthwith.