



Complete Agenda

Democratic Service
Swyddfa'r Cyngor
CAERNARFON
Gwynedd
LL55 1SH

Meeting

PENSION BOARD

Date and Time

2.00 pm, THURSDAY, 17TH DECEMBER, 2015

Location

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

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PENSION BOARD

MEMBERSHIP

EMPLOYER REPRESENTATIVES

Anthony William Deakin (Cartrefi Conwy)

Huw Trainor (North Wales Police)

Cyng / Coun Aled Lloyd Evans (Cyngor Gwynedd Council)

MEMBER REPRESENTATIVES

Victoria Louise Hallaron (Cartrefi Cymunedol Gwynedd)

Osian Richards (Cyngor Gwynedd Council)

Sharon Warnes (retired - formerly Gwynedd 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

1 - 3

The Chairman shall propose that the minutes of the meeting of this committee held on 13 July 2015 be signed as a true record

5. SUMMARY OF AUDIT COMMITTEE RECOMMENDATIONS.

4 - 5

To submit a report by the Investment Manager

6. INVESTMENT PORTFOLIO

6 - 11

To submit a report by the Investment Manager

PENSIONS COMMITTEE, 13.07.15

Present: Anthony Deakin (Cartrefi Conwy), Cllr Aled Evans (Gwynedd Council), Victoria Hallaron (Cartrefi Cymunedol Gwynedd), Osian Richards (Members' Representative), Huw Trainor (North Wales Police), Sharon Warnes (Members' Representative), Stephen Lee (Investec Asset Management)

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

1. ELECTION OF CHAIRMAN FOR 2015/2016

RESOLVED to elect Sharon Warnes as chair of the Pension Board for 2015/16.

2. ELECTION OF VICE-CHAIRMAN FOR 2015/2016

RESOLVED to elect Huw Trainor as vice-chairman of the Pension Board for 2015/16.

3. APOLOGIES

None to note

4. DECLARATION OF PERSONAL INTEREST

No declarations of personal interest were received from any members present. In response to a question regarding links with employees in the Pensions Department and Members of the Pensions Committee, it was suggested to declare an interest should a relevant specific matter arise or be discussed.

5. TERMS OF REFERENCE

Submitted - the Terms of Reference of the Gwynedd Pension Fund Local Pension Board. The document was prepared jointly between Officers from the Finance Department, Officers from the Legal Department and the relevant Cabinet Member. It was reported that the Terms of Reference had been approved at the Full Council on 5.03.15 and that the Board was required to adopt it. The Board's role in assisting the managers of the pension scheme was outlined, drawing attention to paragraph 2.2 of the report.

The Pension Board would ensure that it conformed effectively and efficiently to the code of practice on governing and administering the public service pension plans issued by the Pensions Regulator. The Pension Board would also assist in ensuring that the Gwynedd Pension Fund is effectively and efficiently managed and administered and that it conformed to the code of practice on governing and administering the public service pension plans issued by the Pensions Regulator.

It was confirmed that Gwynedd Council Finance Department would manage the Scheme, and the contact points for the Board would be Dafydd Edwards (Head of Finance Department), Caroline Roberts (Head of Investment), Gareth Jones

(Pensions Manager), Nicholas Hopkins (Deputy Pensions Manager) and Meirion Jones (Communication Officer - Pensions).

The terms of reference was discussed per heading.

Matters arising from the discussion:

- As the Terms of Reference does not allow the presence of substitutes instead of Board members, it was confirmed that the officers would be willing to receive comments from a Member beforehand, should he/she be unable to attend.
- It was noted in the Terms of Reference that the Pension Board needed to hold at least two separate meetings each year, but that it would be possible to organise additional meetings should a matter require specific attention. The Pension Board has the decision regarding the frequency of meetings.
- The Board's role was to shadow the work and decisions of the Pensions Committee. Should a question / matter arise, usually the Board would refer considerations through the officers.
- Should the need arise to adapt the Terms of Reference, this would have to be undertaken by a seal of approval of a meeting of the full Council.

It was noted that the Pensions Board was adopting the Terms of Reference, and would revisit the document if any matter arose.

6. KNOWLEDGE AND SKILLS

Submitted - a document outlining training arrangements for Members of the Pension Board. It was highlighted that the Pension Fund was trying to use individuals with the relevant ability and experience. To assist Members with relevant / current information, the fund would provide training for Members to enable them to receive and maintain an appropriate level of expertise. The report outlined the initial training sessions and the resources to be provided.

It was noted that Members had received a preliminary session on 13 July 2015 (from Mr Stephen Lee of Investec) which focussed on the role and responsibilities of the Pension Board and the main fields of interest. In addition, it was noted that Members would have an opportunity to attend Local Government Pension Scheme (LGPS) Trustee Fundamentals Training sessions. It was noted that these sessions provided a basic understanding of the LGPS and that Gwynedd Council would make arrangements. Following completing the Fundamentals Training (three days), a questionnaire would be issued to assess the Members' current level of understanding. Following the assessment, a training programme would be provided to get to grips with any gaps in the skills and knowledge of every individual. Also, reference was made to training opportunities on the Pensions Regulator website, which offered free modules.

The information was noted and Members were requested to contact Caroline Roberts or Meirion Jones to register for the LGPS Trustee Fundamentals Training.

7. Work Programme

Submitted - the report of the Investment Manager which outlined the Pension Board's need to set a structure for its work. The need to agree on a programme of fields to audit was recommended, so that the information and reports could be

provided as needed. As well as the possible fields listed in the report, the following fields were proposed:

- Outcomes from the training
- Actuary discussions
- The content of the Gwynedd Pension Fund Annual Report - challenge the considerations and decisions
- Reports to the Pensions Committees - challenge the considerations and decisions
- The impact of the Westminster Government's recent budget - How would this be communicated?
- Relevant recommendations of the Wales Audit Office and Internal Audit - challenge the considerations and decisions
- Scrutinise the Plan's administering methods - what was the role and performance of the Administration Unit?
- Scrutinise and understand a variety of investment methods - what was the fund's investment portfolio?
- What was the Pensions Committee's remit?

In response, it was noted that the Wales Audit Office and Internal Audit's recommendations would be submitted to the Audit Committee, but that it would be possible to prepare a summary of those recommendations for the Pension Board.

It was noted that additional meetings had not been arranged for the year, but that it was possible to consider meeting in December (following the training series) and in March. For the meeting in December, it was decided to present:

- A summary of the Audit Committee's recommendations
- The Role of the Administration Unit
- The Investment Portfolio

The above fields were agreed upon as content for the 2015/2016 work programme.

8. Dates for the Future

A document was presented which notified members of relevant events together with the dates of the basic training for Trustees. A request was made for Members to present themselves to the annual meeting of the Pension Fund which would be held on 8 September 2015. The dates of the meetings of the Pensions Committee 2015/2016 were also listed and it was noted that members could shadow these Committees as they were public meetings.

The information was accepted.

9. Any other business

None to note

The meeting commenced at 3:10pm and concluded at 4:20pm

Agenda Item 5

MEETING:	PENSION BOARD
DATE:	17 DECEMBER 2015
TITLE:	AUDIT COMMITTEE RECOMMENDATIONS
PURPOSE:	To inform members of the Fund Investments
RECOMMENDATION:	NOTE THE INFORMATION
AUTHOR:	CAROLINE ROBERTS, INVESTMENT MANAGER

1. Introduction

The Pension Fund is subject to audits in the same way as Gwynedd Council. The Pension Fund systems and compliance with relevant legislation and guidance is audited both internally and by the external auditors. The external auditors audit the Pension Fund accounts at the same time as the audit of Gwynedd Council's Statement of Accounts.

2. Internal Audit Reports to Audit Committee

Following the completion of each internal audit a report is submitted to the Audit Committee. The report includes an Audit Opinion and any recommendations for improvement.

During the last two years the Audit Committee has considered the following internal reports relating to the Pension Fund:

a) May 2014

Gwynedd Pension Fund - Review of Key Controls of the Administrative Systems

Audit Opinion A

The audit opinion is that assurance of financial propriety can be expressed in the review of Key Controls of Gwynedd Pension Fund as the controls in place can be relied upon and have been adhered to. However, the following recommendation is suggested:

Recommendation

There should be an official procedure for reviewing the suspense account.

Action taken

The Investments and Treasury Management Section review the suspense account each month and ensure that appropriate action is taken in conjunction with the Pensions Administration Section.

b) December 2014**Gwynedd Pension Fund – Closure 2013/14****Audit Opinion A**

The audit opinion is that assurance of financial propriety can be expressed in Gwynedd Pension Fund – Closure 2013/14 as the controls in place can be relied upon and have been adhered to.

Agenda Item 6

MEETING: **PENSION BOARD**

DATE: **17 DECEMBER 2015**

TITLE: **INVESTMENT PORTFOLIO**

PURPOSE: **To inform members of the Fund Investments**

RECOMMENDATION: **NOTE THE INFORMATION**

AUTHOR: **CAROLINE ROBERTS, INVESTMENT MANAGER**

I. Investment Powers

The Pension fund has the power to hold many types of investment. The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended. These permit a wide range of investment for Fund monies which are not immediately required to pay pensions and other benefits.

There are a number of restrictions within the regulations which can be increased by the fund. Gwynedd's current restrictions are noted in Column (A) below. However, the regulations allow administering authorities to set limits up to those to those noted in Column (B).

	The Fund's Current Restrictions (A)	Regulations: Increase the Limits to (B)
1. Any single sub-underwriting contract.	1%	5%
2. All contributions to any single partnership.	5%	5%
3. All contributions to partnerships.	15%	30%
4. The sum of all loans and any deposits with any local authority, or any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the Financial Services and Markets Act 2000 [4]) in respect of accepting deposits as a result of an order made under section 38(1) of that Act.	10%	10%
5. All investments in unlisted securities of companies.	10%	15%
6. Any single holding.	10%	10%
7. All deposits with any single bank, institution or person (other than the National Savings Bank).	10%	10%
8. All sub-underwriting contracts.	15%	15%
9. All investments in units or shares of the investments subject to the trusts of unit trust schemes managed by any one body.	25%	35%
10. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	25%	35%
11. All investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body.	25%	35%
12. Any single insurance contract.	35%	35%
13. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%	35%

There is currently a consultation in progress to change these regulations by removing the limits in order to facilitate pooling and collaborative investment.

2. Specialist Advice

The Local Government Pension Scheme Regulations oblige the Council to take specialist advice on investment. This advice is provided by an independent advisor from Hymans Robertson (the Fund's advisers), who joins the Pensions Committee in monitoring the Investment Managers. An advisor from Hymans is always present at the Pensions Committee's quarterly meetings with the Investment Managers.

3. Asset Allocation

One of the key determinants of the Fund's long-term overall performance is its strategic asset allocation. The Fund's strategic asset allocation is shown in the table below.

Asset	%
Equities	72.5
Bonds	15.0
Property	10.0
Private equity	5.0
Infrastructure	2.5
Total	100.0

4. Investment Management

The main objective of investment policy is to maximise the return on the money entrusted to the Council, consistent with acceptable levels of risk and for the annual return in the longer run to exceed the level of wage inflation.

It must be borne in mind that the Fund's liabilities (pensions) are very long-term, extending to the middle of the century. These liabilities will increase with inflation, both because of the index-linking of pensions and also due to the rising level of employees' salaries and wages to the time of retirement.

There is a relationship between the level of returns achieved and the contribution rate which employers are expected to pay. The Pensions Committee considers that in the long run equity returns will exceed bond returns and it is for this reason that the majority of the Fund is invested in equities.

5. Investment Managers

The Fund has appointed a number of investment managers with different investment mandates. The target distribution of Fund assets is shown in the table below. The investment in infrastructure will be built up over a period of time and therefore the actual allocation has not yet reached the target.

Manager	%
BlackRock	29.5
Veritas	19.0
Fidelity	19.0
Insight	15.0
UBS / Lothbury / Threadneedle / BlackRock (Property Only)	10.0
Partners – Private equity	5.0
Partners – Infrastructure	2.5
Total	100.0

A detailed breakdown of the benchmark is attached at Appendix A.

6. Investment Manager Briefs

As a result of a deliberate policy to diversify assets and investment styles, the Fund has 5 Investment Managers with varying briefs:

Investment Manager	Brief
BlackRock	Passive
Fidelity	Active
Insight	Active
Veritas	Active
Partners	Active

BlackRock is briefed to be a “passive” manager. The manager will allocate their mandate’s asset allocation in line with that of the benchmark and in each market they aim to track stock exchange indices. As a result, their mandates’ performance should be in line with their respective benchmarks. Appointing a passive manager reduces the risk of underperformance, relative to benchmark; however, it also reduces the possibility of out performance, relative to the benchmark.

All the others are “active” managers. They are given the discretion to invest in their best investment ideas. Whilst they have a great deal of flexibility, in terms of which stocks, regions and sectors they can invest in, there are a number of restrictions in place which prevents the managers deviating too far from the benchmark and taking excessive risk. Appointing active managers increases the possibility of outperformance, relative to the benchmark; however it also increases the risk of underperformance, relative to benchmark.

Veritas and Fidelity have an “active” equity brief while Insight has an “active” bond brief. Partners Group has been given “active” private equity and infrastructure briefs.

7. Investment Performance

The performance of the Investment Managers is monitored on a quarterly basis. Investment Managers submit quarterly reports and valuations to the Pensions Committee, the relevant officers at Gwynedd Council and the Fund’s adviser. Every quarter a meeting is held between Investment Managers, the Committee, officers and the adviser to monitor their performance.

8. Performance Monitoring

The Pension Fund subscribes to a service provided by the State Street Global Services which calculates the rate of return for Gwynedd and for other Pension Funds and provides comparisons.

9. Targets

Individual performance benchmarks for the Investment Managers are shown in the table below.

Manager	Benchmark	Target
BlackRock	FTSE All-Share and FTSE All-World Indices	Benchmark Return
Veritas	MSCI All Countries World Index	Benchmark + 2% p.a. (gross of fees)
Fidelity	MSCI All Countries World Index	Benchmark + 2%-3% p.a. (gross of fees)
Insight	Cash (Libor)	Benchmark +2% p.a.
Partners	MSCI World	Benchmark + 5% p.a.*

**Partners do not have an official performance target. The target stated above is purely for indicative purposes.
MSCI=Morgan Stanley Capital International*

The property investments are made directly with existing funds and the managers have not been given a benchmark. However, for indicative purposes they are monitored against the IPD Balanced Property Unit Trust Index.

Appendix A

The following table shows the Fund's detailed benchmark allocation.

	BlackRock Market Cap %	BlackRock Fundamental %	Veritas %	Fidelity %	Insight %	UBS/Thread- needle/ Lothbury/ BlackRock Property %	Partners Group %	Total %
Percentage of Fund	22.5	7.0	19.0	19.0	15.0	10.0	7.5	100.0
UK Equities	69.0	10.3	7.5	7.5	-	-	-	19.5
Overseas Equities	31.0	89.7	92.5	92.5	-	-	-	48.0
North America	0.0	50.3	54.1	54.1	-	-	-	22.5
Europe ex-UK	11.0	22.3	15.9	15.9	-	-	-	10.0
Japan	5.0	10.9	7.4	7.4	-	-	-	5.0
Pacific Basin	5.0	6.0	4.2	4.2	-	-	-	4.5
Emerging Markets	10.0	0.2	10.8	10.8	-	-	-	6.0
Private Equity	-	-	-	-	-	-	66.7	5.0
Total Equities	100.0	100.0	100.0	100.0	-	-	66.7	72.5
UK Bonds	-	-	-	-	100.0	-	-	15.0
Total Bonds	-	-	-	-	100.0	-	-	15.0
Property	-	-	-	-	-	100.0	-	10.0
Infrastructure	-	-	-	-	-	-	33.3	2.5
Total	100.0		100.0	100.0	100.0	100.0	100.0	100.0