

<p>ASSESSMENT OF THE EFFECTIVENESS OF NORTHUMBERLAND COUNTY COUNCIL PENSION FUND PANEL 2017/2018</p>

Overall assessment

In response to the Government's requirement for LGPS asset pooling, the Pension Fund Panel ("**the Panel**") has continued to take an active part in the development and establishment of the pool operator, Border to Coast Pensions Partnership (BCPP Ltd). The Chair and Vice Chair of the Panel have been fully engaged during this process, attending all BCPP Joint Committee meetings to provide a voice for Northumberland County Council Pension Fund ("**the Fund**"). The Panel has been mindful of **both** the *opportunity* for the Fund afforded by improved collaborative working with other LGPS administering authorities in the period prior to BCPP Ltd's "go live" to obtain better investment management fee rates, and the *threat* faced by the Fund of incurring (and sharing others') transition costs in the near future when moving investments to BCPP Ltd.

The Panel has overseen the implementation of a shared administration service with South Tyneside Council, adopting revised policy statements for the Fund to facilitate the delivery of a cost effective and efficient service.

The Panel faced a major challenge as a result of membership changes following the May 2017 Northumberland County Council elections, when four out of the six voting Panel members were replaced. With two of the four new members from 2017 having previously served on the Panel, this membership change has been very well managed, and the Panel has continued to implement decisions through the year. All members have shown commitment to training, and continuity has been achieved in all other aspects of the operation of the Panel, such as the advisers to the Fund.

The Panel would particularly draw attention to the following achievements in the year:

- it has actively participated in the development of BCPP Ltd and worked collaboratively in other ways with pooling partners;
- it has overseen the implementation of the shared pensions administration service with South Tyneside Council;
- it has continued to work collaboratively with NCC's LGPS Local Pension Board;
- it has approved NCC Pension Fund's revised Investment Strategy, Administration Strategy, Communications Policy, and Governance Policy and Compliance Statements, and first Administering Authority Discretions Policy;
- it has given approval to enable the Fund to opt up to professional client status with relevant financial institutions prior to implementation of MiFID II;
- it has supported the introduction of a formal Training Needs Analysis for all Panel and Board members;
- it has reviewed quarterly fund manager performance and the impact of currency hedging; and
- it has considered GDPR and the potential implications for the Fund.

Governance arrangements in 2017/2018

Administrative arrangements

The Panel met seven times in the 2017/2018 Council year:

- four meetings for the normal quarterly business including the review of investments and monitoring the appointed fund managers, plus one further meeting which has been added to the standard quarterly timetable;
- one further extraordinary meeting to discuss and consider NCC's policies with a view to aligning with South Tyneside Council's policies before implementation of the shared pensions administration service from January 2018;
- one further extraordinary meeting to appoint NCC Pension Fund's representative on the BCPP Joint Committee.

The number of meetings held has been appropriate to allow sufficient time to consider all agenda items and ensure sufficient training and experience have been gained by the members before making the decisions required.

The length of the meetings (i.e. usually a full day) has been appropriate to enable members to consider complex subject matter, and time has been allowed in the meetings for effective challenge of the external fund managers and other advisers.

The Panel has allocated sufficient time at each meeting to consider each decision fully and to understand the inherent risks involved in pension fund investment and the Local Government Pension Scheme.

The Panel has organised additional meetings where necessary to further consider an issue when focus on a single issue is required, for example, pooling or shared services.

The Panel has delegated authority to the Director of Corporate Resources, in consultation with the Chair and Vice Chair, where necessary, to ensure that matters could be progressed on a timely basis without the need to revert to the committee.

The minutes of meetings and reports presented to the Panel were of adequate detail for members to ensure that officers had acted on and implemented the decisions taken.

The papers for the meetings were circulated well in advance to allow adequate time for Panel members to read and consider the issues. The papers were prepared to an adequate standard and included a short summary of each agenda item to aid the reader in understanding the key points. Urgent items, to be tabled at meetings, have been kept to a minimum although at certain times this has been unavoidable due to ever changing circumstances especially regarding pooling.

The papers have been presented at the meetings by officers and advisers with sufficient technical knowledge, experience and skill to assist members in understanding the key areas.

The meetings have been conducted in a format which has allowed for decisions to be reached promptly but after appropriate consideration. Suitably qualified officers and advisers have been in attendance at all meetings and have been allowed the opportunity to provide advice during meetings to ensure that decisions made comply with the regulations and best practice.

Panel members have ensured that the views of the observer status participants have been fully considered.

The Chair has conducted the meetings to ensure that all members have been encouraged to express their views. All Panel members have contributed to effective and efficient meetings. NCC's LGPS Local Pension Board members have been invited to attend all formal meetings of the Panel, as well as all training and working group meetings of the Panel to observe the decision making process.

The Panel has considered and approved a programme of future meetings for the investment managers who will be requested to attend meetings, and added an additional regular annual meeting to the programme. The programme takes a risk based approach to allocating time for the Panel to interview and question the managers, and allows for flexibility so managers can be requested to attend more frequently should the Panel deem it appropriate. The programme of meetings allows sufficient time for the Panel to understand the fund managers' philosophy and processes and time for effective challenge. The Chair of the Panel has been pro-active in determining the frequency of the fund managers' attendances at the meetings.

The Panel monitors the cost of transitions of assets from one fund manager to another.

Meetings have been conducted following the protocols as set out in the Northumberland County Council Constitution.

Access to advice

The Panel recognises the importance of understanding its responsibilities to the employers participating in the Fund and, in particular, the need to understand and manage investment (asset allocation) risk. The Panel has had access to appropriate advice and has obtained advice in the year from suitably qualified specialists including:

- investment advice from Mercer;
- actuarial advice from Aon Hewitt; and
- legal advice on contracts entered into from Squire Patton Boggs, Eversheds as well as the Legal specialists at South Tyneside Council.

The Panel has taken advice from Mercer on all investment decisions made and obtained Mercer's research information and ratings each quarter for all of the Fund's external investment managers.

Senior officers of the Council, such as the Director of Corporate Resources have attended Panel meetings when necessary.

The Panel has an assessment process to formally measure the performance of the investment adviser on an annual basis.

Audit

The Panel has the opportunity to question and engage with the external auditor to discuss the accounting and administration arrangements for the Pension Fund and the Scheme. NCC's internal audit programme covers Pension Fund accounting functions.

Internal and external audit provide independent checks on the work of the officers and the Pension Team.

Performance measurement adviser

The Panel has the opportunity to question and engage with the independent performance measurement adviser, Portfolio Evaluation, to discuss the performance of the external investment managers. This provides an independent check on the investment managers, the information provided in the Panel papers, and, to some extent, the advice provided by the investment adviser (Mercer).

Continuity

Pension Fund investment is long term in nature and expertise takes time to build up. Continuity is vitally important for effective decision making, with some decisions, such as the decisions about asset allocation, being made over the course of several meetings. During 2017/2018, the Panel has had continuity in the three most important areas for its effectiveness as a decision-making body, namely:

- its own membership including observers (with two members from pre-2013, including the former Chairman, returning to the Panel as members following the May 2017 elections) ;
- its investment adviser; and
- the officers who support the work of the Panel.

Training

The Panel recognises that pension fund investment is a technical area and the importance of spending time on training. The Panel has received adequate training for the decisions taken in the year, for example, for interviewing current external managers, where the Panel was supported by Mercer's advice and research information throughout the process. Panel members have devoted time to attend relevant and tailored training events, and supported the introduction of a formal Training Needs Analysis to be completed annually by all Panel and Board members.

Communication with stakeholders

The Panel has promoted effective communication with the stakeholders of the Scheme and Fund, such as road-shows and newsletters for the contributors (employees). Panel members have attended the annual employers' meeting which has provided them with valuable feedback.