

<p>ASSESSMENT OF THE EFFECTIVENESS OF NORTHUMBERLAND COUNTY COUNCIL PENSION FUND PANEL 2018/2019</p>

Overall assessment

The Pension Fund Panel (“**the Panel**”) has continued to take an active part in the development 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 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 continued to monitor the performance of the shared administration service with South Tyneside Council, following its implementation from January 2018, to ensure it facilitates the delivery of a cost effective and efficient service.

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

- participating in the development of BCPP Ltd and working collaboratively in other ways with pooling partners;
- monitoring the effectiveness of the shared pensions administration service with South Tyneside Council following its implementation in January 2018;
- developing its collaborative working practices with NCC’s LGPS Local Pension Board, for the benefit of the Fund and the LGPS members;
- approving the Fund’s revised Investment Strategy, Funding Strategy, Communications Policy, Breaches Recording Procedure, Conflicts of Interest Policy, Training Policy and Governance Policy and Compliance Statements;
- making a £40 million commitment to Pantheon’s Global Infrastructure Fund III;
- considering and maintaining the Fund’s overweight position in index linked gilts;
- terminating PIRC’s appointment as provider of share voting advice to the Fund, partly to align the Fund’s responsible investment policy with BCPP Ltd’s;
- reviewing fund manager performance and the impact of currency hedging quarterly; and
- considering implementation of an equity protection strategy for the Fund, and setting a threshold above which to make a short term tactical allocation to cash, to protect the Fund’s funding level ahead of the March 2019 actuarial valuation.

Governance arrangements in 2018/2019

Administrative arrangements

The Panel met seven times in the 2018/2019 Council year, both formally and informally (for training purposes):

- four meetings for the normal quarterly business including the review of investments and monitoring the appointed fund managers;
- one further extraordinary meeting to consider an infrastructure investment for the Fund; and
- two further informal meetings, under delegation, to consider an equity protection strategy for the Fund and receive training from BCPP Ltd on potential pooling opportunities.

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 Service Director - Finance, 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; and
- legal advice on matters relating to pooling from Nigel Giffin QC and Burness Paull as well as the LGPS 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 Service Director – Finance, and of South Tyneside Council, such as the Principal Pensions Manager 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 shared service pensions administration function.

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 2018/2019, 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, the decision to make a tactical allocation to cash which was discussed at several Panel meetings and, 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 completed an annual formal Training Needs Analysis.