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Hampshire
County Council

NOTICE OF MEETING

Meeting	Hampshire Pension Fund Panel and Board
Date and Time	Friday, 27th September, 2019 at 10.00 am
Place	Mitchell Room, EII Podium, Winchester
Enquiries to	members.services@hants.gov.uk

John Coughlan CBE
Chief Executive
The Castle, Winchester SO23 8UJ

FILMING AND BROADCAST NOTIFICATION

This meeting may be recorded and broadcast live on the County Council's website. The meeting may also be recorded and broadcast by the press and members of the public – please see the Filming Protocol available on the County Council's website.

AGENDA

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST

All Members who believe they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting must declare that interest and, having regard to Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore all Members with a Personal Interest in a matter being considered at the meeting should consider, having regard to Part 5, Paragraph 4 of the Code, whether such interest should be declared, and having regard to Part 5, Paragraph 5 of the Code, consider whether it is appropriate to leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with the Code.

3. CONFIRMATION OF MINUTES (NON-EXEMPT) (Pages 5 - 12)

To confirm the Minutes of the meeting held on 26 July 2019.

4. DEPUTATIONS

To receive any deputations notified under Standing Order 12.

5. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make

6. ACCESS JOINT COMMITTEE MINUTES 11 JUNE 2019 (Pages 13 - 18)

To receive and note the ACCESS Joint Committee minutes of the meeting held on 11 June 2019.

7. MINUTES OF THE RESPONSIBLE INVESTMENT SUB-COMMITTEE 3 SEPTEMBER 2019 (Pages 19 - 42)

To receive and action the minutes of the Responsible Investment Sub-Committee held on 3 September 2019.

8. GOVERNANCE: PENSION ADMINISTRATION ISSUES (Pages 43 - 48)

To consider a report from the Director of Corporate Resources seeking the Panel and Board's approval for the approach to be taken to address two administration issues.

9. EXCLUSION OF THE PRESS AND PUBLIC

That in relation to the following items the press and public be excluded from the meeting, as it is likely, in view of the nature of the business to be transacted or the nature of proceedings, that if a member of the public were present during the items there would be disclosure to them of exempt information within Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, and further that in all circumstances of the case, the public interest in maintaining the exempt information outweighs the public interest in disclosing the information, for the reasons set out in the report.

10. CONFIRMATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING (Pages 49 - 52)

To confirm the exempt minutes of the meeting held on 26 July 2019.

11. 2019 ACTUARIAL VALUATION

To receive and note a presentation on the 2019 Actuarial Valuation from the Pension Fund's Actuary.

12. EXEMPT MINUTES OF THE RESPONSIBLE INVESTMENT SUB-COMMITTEE 3 SEPTEMBER 2019 (Pages 53 - 54)

To receive and note the exempt minutes of the Responsible Investment Sub-Committee meeting held on 3 September 2019.

13. UPDATES TO THE RESPONSIBLE INVESTMENT POLICY (Pages 55 - 66)

To consider a report from the Director of Corporate Resources-Corporate Services proposing changes to the Pension Fund's Responsible Investment (RI) Policy following the review of an issue by the Responsible Investment Sub-committee.

14. INVESTMENT - INVESTMENT UPDATE (Pages 67 - 92)

To consider the exempt report of the Director of Corporate Resources - Corporate Services updating the Panel and Board on the Pension Fund's investments since the last meeting of the Pension Fund Panel and Board on 26 July 2019.

15. INVESTMENTS - ALTERNATIVE INVESTMENTS PORTFOLIO UPDATE (Pages 93 - 160)

To consider the exempt report of the Director of Corporate Resources - Corporate Services updating the Pension Fund Panel and Board on the progress of the alternative investments portfolio.

ABOUT THIS AGENDA:

On request, this agenda can be provided in alternative versions (such as large print, Braille or audio) and in alternative languages.

ABOUT THIS MEETING:

The press and public are welcome to attend the public sessions of the meeting. If you have any particular requirements, for example if you require wheelchair access, please contact members.services@hants.gov.uk for assistance.

County Councillors attending as appointed members of this Committee or by virtue of Standing Order 18.5; or with the concurrence of the Chairman in connection with their duties as members of the Council or as a local County Councillor qualify for travelling expenses.

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AT A MEETING of the PENSION FUND PANEL AND BOARD of the County Council held at The Castle, Winchester on Friday 26 July 2019.

Chairman:
p Councillor M. Kemp-Gee

Elected members of the Administering Authority (Councillors):

p C. Carter	p A. Joy
a A. Dowden	p P. Latham
a A. Gibson	p B. Tennent
a J. Glen	p T. Thacker
p D. Mellor	

Employer Representatives (Co-opted members):

a Councillor J. Smith (Portsmouth City Council)
a Councillor T. Cartwright (Fareham Borough Council)
p Councillor S. Barnes-Andrews (Southampton City Council)
a Mr D. Robbins (Churchers College)

Scheme Member Representatives (Co-opted members):

p Dr C. Allen (pensioners' representative)
p Mr N. Wood (scheme members representative)
a Mrs V. Arrowsmith (deferred members' representative)
p Mrs S. Manchester (substitute scheme member representative)

Independent Adviser:

p C. Dobson

BROADCASTING ANNOUNCEMENT

The Chairman announced that the press and members of the public were permitted to film and broadcast the meeting. Those remaining at the meeting were consenting to being filmed and recorded, and to the possible use of those images and recording for broadcasting purposes.

176. **APOLOGIES FOR ABSENCE**

Cllrs Cartwright, Dowden, Gibson, Glen and Mrs Arrowsmith and Mr Robbins sent their apologies.

177. **DECLARATIONS OF INTEREST**

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3, Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members

were mindful that where they believed they had a Non-Pecuniary interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

178. **CONFIRMATION OF MINUTES**

The minutes of the Pension Fund Panel and Board held on 12 July 2019 were confirmed.

179. **DEPUTATIONS**

There were no deputations.

180. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman informed the committee that he would be unable to attend the committee's next meeting in September 2019 and Cllr Thacker would chair the meeting.

181. **GOVERNANCE - INTERNAL AUDIT REPORT & OPINION 2017/18**

The Panel and Board considered a report of the Director of Corporate Resources (item 6 in the Minute Book) providing the Pension Fund Panel and Board with the Chief Internal Auditor's opinion on the adequacy and effectiveness of internal control of the Pension Fund. 'Substantial Assurance' can be placed on Pension Services' framework of governance, risk management and management control and audit testing has demonstrated controls to be working in practice.

RESOLVED:

- (a) That the Chief Internal Auditor's annual report and opinion statement for 2018/19 was accepted.

182. **GOVERNANCE – APPOINTMENTS TO THE RESPONSIBLE INVESTMENT SUB COMMITTEE**

The Panel and Board considered a report of the Director of Corporate Resources (item 7 in the Minute Book) following the approval of the Pension Fund's revised Responsible Investment Policy and creation of the Responsible Investment sub-committee that outlined the make-up of the committee.

RESOLVED:

- (a) That Cllrs Barnes-Andrews, Glen, Kemp-Gee, Latham, Tennent and Dr Allen were appointed to the Responsible Investment sub-

committee.

183. **GOVERNANCE – 2019 TRIENNIAL VALUATION**

The Panel and Board considered and noted a report of the Director of Corporate Resources (item 8 in the Minute Book) on the progress of the 2019 actuarial valuation. Work is underway for the current valuation which is as at 31 March 2019. Membership data will be supplied to the Fund Actuary by 26 July and initial whole of Fund results will be presented to the Panel and Board at their meeting on 27 September before being shared with employers at the Annual Employer meeting in October.

184. **GOVERNANCE - ACCESS BUSINESS PLAN**

The Panel and Board considered the report from the Director of Corporate Resources (Item 9 in the Minute Book) including the ACCESS Business Plan for 2019/20, which had been agreed and recommended for approval to the member authorities by the ACCESS Joint Committee.

The budget for ACCESS for 2019/20 was £1.2m of which Hampshire's equal share would be £109,000.

RESOLVED:

- a) That the ACCESS Business Plan for 2019/20 was approved.

185. **GOVERNANCE - PENSION FUND DRAFT ANNUAL REPORT 2018/19**

The Panel and Board considered and noted a report of the Director of Corporate Resources (item 10 in the Minute Book) containing the Pension Fund's Draft Annual Report, including the Pension Fund's Accounts for the year ending 31 March 2019. The Director highlighted to the committee the following new additions to this years annual report, including:

- the ACCESS pool's annual report,
- an update on progress with investment pooling, and
- updates to sections of the report including investment performance and the risk register to reflect the impact of pooling.

In finalising the report minor changes will be made, including but not limited to:

- updates to the attendance log to include substitute members when deputising for full members,
- changes to reflect the final version of the ACCESS pool's annual report,
- additional breakdown of leavers in the scheme administration

- report to show the number of ill-health leavers, and
- minor corrections of grammatical and formatting errors.

RESOLVED:

- (a) That the Annual Report for 2018/19 be approved for publication, and that the Director of Corporate Resources be authorised to make any necessary minor amendments prior to publication.

186. **GOVERNANCE – TRAINING PLAN 2018/19**

The Panel and Board considered a report of the Director of Corporate Resources (item 11 in the Minute Book) setting out the proposed training arrangements for members of the Pension Fund Panel and Board in 2019/20. In particular members noted the importance of training for Panel and Board members in their role in the governance of the Pension Fund and their regulatory responsibilities as Pension Committee and Board members. The Director presented a draft training plan which had been produced following the analysis of the committee members' completed Training Needs Analyses.

RESOLVED:

- (a) That the 2018/19 training programme was approved, noting that it may be adapted based on changing circumstances, and the remainder of the report was noted.

187. **GOVERNANCE – PENSION FUND COSTS 2018/19**

The Panel and Board considered and noted a report of the Director of Corporate Resources (item 12 in the Minute Book) on the costs of managing the Pension Fund in the financial year 2018/19. Costs were disclosed according to the three categories specified in CIPFA's guidance on Pension Fund Accounts; investment management costs, administration expenses and oversight and governance costs.

The Panel and Board noted that while the cost of managing the Pension Fund was significant, it was low in comparison to the overall size of the Pension Fund and in line with Hampshire's position as one of the largest LGPS funds. The Director highlighted to members the impact of investment pooling in terms of the reporting of costs in the Fund's Annual Report and the actual achievement of costs and savings, which to date have resulted in a small net deficit.

188. **INVESTMENTS - PENSION FUND CASH – ANNUAL REPORT FOR 2018/19**

The Panel considered a report of the Director of Corporate Resources (Item 13 in the Minute Book) which summarised the activities of officers in managing the Pension Fund's cash balance during 2018/19. The

Panel had agreed an Annual Investment Strategy earlier in the year and the cash balance had been managed in accordance with that Strategy throughout the year. The average cash balance in 2018/19 was £64m, which included cash being held whilst the Fund's property, private equity and infrastructure investment managers find suitable investment opportunities.

Following the publication of the Pension Fund's draft statement of accounts, the Director also reported to the Panel and Board in 2018/19 the Pension Fund had improved its cashflow positive position from its dealings with members, with a surplus of £55m.

RESOLVED:

- (a) That the outturn report on the Pension Fund's cash management in 2018/19 was approved.

189. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraphs 3 and 5 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

190. **MINUTES OF PREVIOUS MEETING HELD ON 12 JULY 2019**

The exempt minutes of the Pension Fund Panel and Board held on 12 July 2019 were confirmed.

191. **INVESTMENTS - PENSION FUND COSTS 2018/19 (EXEMPT APPENDIX)**

The Panel and Board received and noted an exempt appendix from the Director of Corporate Resources (Item 16 in the Minute Book) on the Pension Fund's costs [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION].

192. **INVESTMENTS - PENSION FUND CASH – ANNUAL REPORT FOR 2018/19 (EXEMPT APPENDIX)**

The Panel and Board received and noted an exempt appendix from the Director of Corporate Resources (Item 17 in the Minute Book) on the Pension Fund's cash investments [SUMMARY OF A MINUTE WHICH

CONTAINS EXEMPT INFORMATION].

193. **GOVERNANCE – ‘GOOD GOVERNANCE’ PROJECT**

The Panel and Board received and noted an exempt appendix from the Director of Corporate Resources (Item 18 in the Minute Book) on the SAB’s ‘Good Governance’ project [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION].

194. **INVESTMENTS – PROPERTY PORTFOLIOS UPDATE**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 19 in the Minute Book) updating the Panel and Board on the Fund’s property portfolios. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION].



ACCESS JOINT COMMITTEE

MINUTES of a meeting of the ACCESS Joint Committee held at Islington Town Hall on Tuesday, 11th June, 2019.

PRESENT: Cllr Andrew Reid - Chairman (Suffolk CC), Cllr Susan Barker (Essex CC), Cllr Paul Bartlett – substitute (Kent CC), Cllr Vanessa Churchman – substitute (Isle of Wight), Cllr Jonathan Ekins (Northamptonshire CC), Cllr Gerrard Fox (East Sussex CC), Cllr Mark Kemp-Gee (Hampshire CC), Cllr Judy Oliver (Norfolk), Cllr Terry Rogers (Cambridgeshire CC), Cllr Ralph Sangster (Hertfordshire CC) and Dr James Walsh - substitute (West Sussex)

ALSO PRESENT: Dawn Butler (ASU), Clifford Sims (Squire Patton Boggs), John Wright (Hymans Robertson)

OFFICERS: Andrew Boutflower (Hampshire), Nicola Mark (Norfolk), Kevin McDonald (Essex), Alison Mings (Kent), Ola Owolabi (East Sussex), Matthew Nendick (Hertfordshire), Paul Finbow (Suffolk), Sharon Tan (Suffolk) Jo Thistlewood (Isle of Wight), Mark Whitby (Northamptonshire), Rachel Wood (West Sussex), Glenn Cossey (Norfolk) and Joel Cook (Kent - Clerk)

UNRESTRICTED ITEMS

133. Membership. (Item. 2)

1. The Committee was advised of the following changes:

- Cllr Jonathan Ekins has replaced Cllr Graham Lawman as the Northamptonshire County Council representative.
- Cllr Gerard Fox has replaced Cllr Richard Stogdon as the East Sussex County Council representative.

2. The Chairman requested that previous Joint Committee Members Cllr Stogdon and Cllr Lawman be formally thanked for their hard work and commitment.

RESOLVED that the changes to the membership be noted and that Cllrs Lawman and Stogdon be thanked for their contribution to the work of ACCESS.

134. Election of Vice-Chair. (Item. 3)

1. Cllr Bartlett nominated Cllr Kemp-Gee, seconded by Dr Walsh. No other nominations were made.

RESOLVED that Cllr Kemp-Gee be elected Vice-Chairman.



135. Declaration of interests in items on the agenda.
(Item. 4)

No declarations were made.

136. Minutes of the meeting held on 18 March 2019.
(Item. 5)

1. The committee was advised that, in line with requests made at the previous meeting, s151 Officer attendance would take place at future meetings. It was noted that on this occasion, Jo Thistlewood (Isle of Wight) had been asked to attend on behalf of the s151 Officers as none were available.

RESOLVED that the minutes of the meeting on 18 March 2019 be signed as a true and accurate record.

137. Host Authority arrangements [11:10 - 11:15].
(Item. 6)

1. Kevin McDonald (Essex) provided an update on the provision of Secretariat services to the Joint Committee.
2. He explained that, whilst the ultimate goal was for the Secretariat function to be included within the ASU, it was proposed that it remain with Kent for a further 12 months.
3. The proposal recognised that the ASU establishment was not yet complete, and it would be beneficial to continue with the clerking support provided by Kent due to the comprehensive knowledge built up by colleagues there.
4. Officers confirmed that there would be no additional budgetary implications.

RESOLVED that:

- The content of the report be noted;
- the current Clerking / Secretariat service provided by Kent be extended for 12 months.

138. ACCESS Annual Report [11:15 - 11:30].
(Item. 7)

1. Sharon Tan (Suffolk) introduced the draft format for the ACCESS Annual Report to the Joint Committee.
2. Members requested the following:
 - a. Passive Investments be mentioned in the Report;
 - b. the final Report be available by 15 July and that it be published on the ACCESS website;
 - c. the addition of an executive summary which highlighted the successes of the Fund.

RESOLVED that:

- the format and approach to ACCESS annual report be approved (subject to the inclusion of the above requests);
- approval and publication of final version be delegated to Sharon Tan (Suffolk) in consultation with the Chair & Vice-Chair.

139. 2018/19 Out-turn & 2019/20 Business Plan Update [11:30 - 11:45].
(Item. 8)

1. Alison Mings (Kent) provided an update on the activities undertaken since the last Joint Committee and associated spend.
2. The 2018/19 outturn had a total spend of £1.427m, and arrangements were in place to collect each Authority's share (£113.4k).
3. There had only been minor changes to the ACCESS Strategic Business Plan since the last Joint Committee meeting.
4. In response to questions from Members, Alison Mings confirmed that the Strategic Business Plan would be updated to show that work on joint policies was underway and that the Communications Strategy would be included in the Business Plan as it was already underway.
5. Members asked for clarity around the significant reduction in the 2019/20 budget for "strategic and technical costs" (from £395k to £189k). It was confirmed that the fees were lower due to the ASU taking over some of the work previously provided by Hymans. In addition, officers were able to provide a more realistic forecast due to their increasing knowledge of the ACCESS costs.
6. Responding to questions regarding the increased budget for "advice re new structures" (from £92k to £175k), Officers explained that this change reflected the need for additional commissioned services to review and plan future illiquid options, as per previous Joint Committee resolutions.
7. To provide further clarity on these points, it was agreed that future budget and outturn updates would include more explanatory notes.
8. Alison Mings (Kent) presented the risk register and explained there were no substantial changes since the last update. A Member raised a technical question about one of the sub-funds and following a brief discussion, Andrew Boutflower (Hampshire) assured Members the on-going issue was being addressed.

RESOLVED that the 2018/19 outturn position and updated Business Plan be noted.

140. Motion to Exclude the Press and Public.
(Item. 9)

RESOLVED that under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 3 & 5 of part 1 of Schedule 12A of the Act.

141. MHCLG Consultation update [11:45 - 12:00].
(Item. 10)

1. Kevin McDonald (Essex) updated the Joint Committee on the submission of the consultation response.
2. Nicola Mark (Norfolk) advised the Joint Committee that a meeting with the Minister, Rishi Sunak MP, had been requested. A meeting with the civil servant Theresa Clay had been offered, and this was under negotiation.
3. Members restated their desire for an elected representative from the Joint Committee to be present at the meeting.
4. Members noted their disappointment that no formal written response had been received to confirm that the points made by ACCESS were being considered.

RESOLVED that Elected Members and OWG Officers should meet with Theresa Clay – dates to be confirmed.

142. ACS Implementation update [12:00 - 12:20].
(Item. 11)

1. Andrew Bouflower (Hampshire) update the Joint Committee on the progress of launching the ACS, the sub-funds that will be created within it and the options for pooling illiquid investments.

RESOLVED that

- The progress in launching the ACS investment sub-funds be noted;
- The progress in identifying options for pooling illiquid investments be noted.

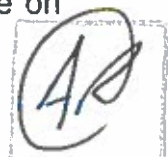
143. Contract Management update [12:20 - 12:40].
(Item. 12)

1. Kevin McDonald (Essex) provided an update on the ACS Operator contract on behalf of Mark Paget (ASU).
2. The Joint Committee discussed the Key Performance Indicators (KPIs) used to measure Link's performance. Members asked to see those KPIs and that they be reviewed to ensure they were still fit for purpose.
3. The Chairman requested that Link be invited to the next meeting to discuss performance.

RESOLVED that the report be noted.

144. Access Support Unit update [12:40 - 13:00].
(Item. 13)

1. Jo Thistlewood (Isle of Wight) provided an update to the Joint Committee on the development of the ACCESS Support Unit (ASU).



2. Following the update from the previous meeting, Members were notified that the appointment to the post of Director (following the commissioning of a specialist recruiter) had not been successful.
3. Following careful evaluation of the available options, the Officer Working Group had developed a recommendation to the Joint Committee that an ASU Director to be appointed on a secondment or permanent basis, from within the pool of officers already participating in the ACCESS funds.
4. Members were presented with a revised timetable for the recruitment of the Director post, though cautioned that it was subject to review and change.

RESOLVED that;

- ASU Director post to be recruited / sought from ACCESS Pool officers (secondment or permanent) on a full-time basis;
- updated timeline supported with intention of allowing for a decision by Essex appointment committee on 24 July;
- candidates not be interviewed by any representative of their own authority.

145. Governance arrangements [13:30 - 13:50].
(Item. 14)

1. Nicola Mark (Norfolk) updated the Joint Committee on the progress of the Phase 3 Governance work, previously outlined at the meeting on 13 March 2019. She highlighted the progress that had been made over the past two years, despite confronting a number of challenges, and the view from the Auditors that the Governance Manual had been extremely useful to them.
2. The Chairman highlighted to good work of Nicola Mark in leading the Governance work.
3. Clifford Sims (Squire Patton Boggs) updated the Joint Committee on the amendments that had been made to the Inter Authority Agreement (IAA).
4. Engagement with Monitoring Officers (MOs) via webinar was scheduled for 12 June.
5. Members queried the status and planning for the training that would be provided around ACCESS's governance arrangements. Sharon Tan (Suffolk) affirmed that she would be bringing a paper on this to the next meeting as part of a wider training update.

RESOLVED that

- The Governance manual be approved for adoption and ongoing management by the ASU; and that
- The IAA be endorsed for referral to MOs for further consideration and progression through the Administering Authorities' relevant governance processes.

146. Items for information or advice from the committee [13:50 - 14:00].
(Item. 15)

1. Updates on the following were discussed briefly:

- Scheme Member representation (to be considered at future meeting)
- Plans for informal meetings to be held for ACCESS Members
- Woodford investment fund
- MHCLG meeting

Chairman..........
9 September 2019

AT A MEETING of the PENSION FUND RESPONSIBLE INVESTMENT SUB-COMMITTEE of the County Council held at The Castle, Winchester on Tuesday 3 September 2019.

Chairman:
p Councillor M. Kemp-Gee

Elected members of the Administering Authority (Councillors):
p P. Latham
p B. Tennent
a J. Glen

Employer Representatives (Co-opted members):
p Councillor S. Barnes-Andrews (Southampton City Council)

Scheme Member Representatives (Co-opted members):
p Dr C. Allen (pensioners' representative)

BROADCASTING ANNOUNCEMENT

The Chairman announced that the press and members of the public were permitted to film and broadcast the meeting. Those remaining at the meeting were consenting to being filmed and recorded, and to the possible use of those images and recording for broadcasting purposes.

1. **ELECTION OF CHAIRMAN AND VICE CHAIRMAN**

Cllr Kemp-Gee was elected as Chairman. Cllr Latham as Vice-Chairman.

2. **ELECTION OF VICE CHAIRMAN**

Cllr Latham was elected as Vice-Chairman.

3. **APOLOGIES FOR ABSENCE**

No apologies were received.

4. **DECLARATIONS OF INTEREST**

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3, Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members

were mindful that where they believed they had a Non-Pecuniary interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

5. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman had no announcements.

6. **DEPUTATIONS**

There were no deputations.

7. **SUB-COMMITTEE WORK PLAN**

The Panel and Board considered a report of the Director of Corporate Resources (item 7 in the Minute Book) proposing a work plan for the sub-committee. The work plan was principally taken from the sub-committee's terms of reference agreed by the Pension Fund Panel and Board in July 2019. A number of items from the work plan featured later in the meeting and one of the sub-committee's key outputs; the Pension Fund's annual report on responsible investment, would be drafted for review at the sub-committee's next meeting.

RESOLVED:

(a) That the work plan was approved

8. **UK STEWARDSHIP CODE**

The Panel and Board considered a report of the Director of Corporate Resources (item 8 in the Minute Book) on signing the UK Stewardship Code. The Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. Becoming a signatory does not direct the Pension Fund to manage its investment strategy in a particular way or invest or disinvest in any particular companies or industries. 32 of the 89 LGPS funds in England and Wales have signed up to and reported their compliance against the Code, which is one of two major standards for investors to demonstrate their commitment to RI.

There is no annual fee for being a UK Stewardship code signatory. The FRC expects signatories of the Code to publish on their website a statement that describes how they have applied each of the seven principles of the Code, discloses the specific information requested in the guidance to the principles and explains why the signatory has not complied with and principles of the Code or elements of guidance.

RESOLVED:

- (a) That the RI sub-committee recommends to the Pension Fund Panel and Board that Hampshire Pension Fund signs the UK Stewardship Code.

9. **PRINCIPLES FOR RESPONSIBLE INVESTMENT**

The Panel and Board considered a report of the Director of Corporate Resources (item 9 in the Minute Book) on signing the Principles for Responsible Investment (PRI). The PRI is an internationally recognised standard and is the second of two (after the UK Stewardship Code) major standards enabling signatories to publicly demonstrate their commitment to RI. Becoming a signatory does not direct the Pension Fund to manage its investment strategy in a particular way or invest or disinvest in any particular companies or industries.

There is an annual fee for being a PRI signatory. For 2019/20 this would be £6,529 for a fund of Hampshire's size. Signatories are required to report under the PRI framework each year (after their first year of joining), which is due for submission between January and March. The PRI describe its principles as 'for most signatories, the commitments are a work-in-progress and provide direction for their responsible investment efforts, rather than a checklist with which to comply'.

RESOLVED:

- (a) That the RI sub-committee recommends to the Pension Fund Panel and Board that Hampshire Pension Fund signs the PRI.

10. **GLOBAL REAL ESTATE SUSTAINABILITY BENCHMARKING (GRESB)**

The Panel and Board considered a report of the Director of Corporate Resources (item 10 in the Minute Book) participating in the GRESB. The Pension Fund's UK property investment manager CBRE is recommending the Pension Fund uses GRESB as it considers it to be the best independent, comparable and reliable assessment of ESG performance for a property portfolio.

The cost to Hampshire of participating in GRESB will be nearly £4,000 per annum. The information provided in the GRESB reporting will practically benefit the Pension Fund in highlighting the areas in the portfolio for CBRE to focus their efforts in improving sustainability. CBRE estimate that the cost of work to improve the portfolio's sustainability would be an additional £40,000 per annum in professional fees in managing tenants and capital expenditure to improve the quality of the properties in the portfolio. CBRE recommend that this approach is necessary as delay in managing these issues can lead to higher costs

and weaker performance in the long run.

RESOLVED:

- (a) That the recommendation was changed and this item was deferred until the RI sub-committee's next meeting when further details will be sought from CBRE on the additional costs to the portfolio of implementing issues identified in the benchmarking and how these related to the portfolios ongoing maintenance.

11. **SHAREHOLDER VOTING**

The Panel and Board noted a report of the Director of Corporate Resources (item 11 in the Minute Book) on the Pension Fund's shareholder voting record. The Director highlighted that shareholder votes are an important tool for company engagement alongside more direct communication (such as meetings) with company management. Voting provides an ultimate sanction for shareholders to show their disapproval with how a company is operating. How votes are cast will be determined by the voting policy, which for Hampshire varies depending on how the equity investment is held between its directly held equities, or pooled investments, either pooled within ACCESS or in investment managers' own pooled funds.

In line with best practice the Pension Fund will publish its full shareholder voting record on its website. The RI sub-committee noted the exception reports from the Fund's investment managers on the instances where they voted against company management or shareholder resolutions.

12. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraphs 3 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

13. **SHAREHOLDER VOTING (EXEMPT APPENDIX)**

The Panel and Board received and noted an exempt appendix from the Director of Corporate Resources (Item 13 in the Minute Book) on an investment managers exception report of its shareholder voting.
[SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT

INFORMATION].

14. **ACADIAN'S PORTFOLIO ESG CONSIDERATION**

The Panel and Board received and noted an exempt appendix from the Director of Corporate Resources (Item 14 in the Minute Book) on Acadian's portfolio's operation in relation to the Pension Fund's Responsible Investment Policy. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION].

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Responsible Investment Sub-Committee
Date:	3 September 2019
Title:	UK Stewardship Code
Report From:	<i>Director of Corporate Resources – Corporate Services</i>

Contact name: Andrew Bouflower

Tel: 01962 847407

Email: andrew.bouflower@hants.gov.uk

Purpose of this Report

1. This report provides information on signing the UK Stewardship Code.

Recommendations

2. That the RI sub-committee recommends to the Pension Fund Panel and Board that Hampshire Pension Fund signs the UK Stewardship Code.

Executive Summary

3. The UK Stewardship Code is published by the Financial Reporting Council (FRC). The last version was published in 2012. In January 2019 the FRC published a consultation on updates to the Stewardship Code. The Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders.
4. Since December 2010 all UK-authorized Asset Managers are required under the FCA's Conduct of Business Rules to produce a statement of commitment to the UK Stewardship Code or explain why it is not appropriate to their business model. The FRC also encourages all institutional investors, such as the Pension Fund, to report if and how they have complied with the Code. 32 of the 89 LGPS funds in England and Wales have signed up to and reported their compliance against the Code (shown in Appendix 1). The FRC divides signatories between those it assessed as having 'reported well against the code and demonstrated their commitment to stewardship' (Tier 1) and those where 'reporting improvements are necessary' (Tier 2).

UK Stewardship Code 2012 version

5. There are seven principles of the Code that aims 'to protect and enhance the value that accrues to ultimate beneficiaries'. The principles are set out below along with a summary of the Pension Fund's current compliance. Except for having a policy for managing conflicts of interest in relation to stewardship, the Pension Fund is either complying with the principles of the Code or will comply as a result of the new activity and reporting to the RI sub-committee.

Principle	Status
1 Publicly disclose their policy on how they will discharge their stewardship responsibilities.	✓ The Fund's updated RI policy describes its approach to stewardship
2 Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.	x Would need to be developed
3 Monitor their investee companies.	✓ Companies are monitored through the reporting and scrutiny of the Pension Fund officers and Panel and Board
4 Establish clear guidelines on when and how they will escalate their stewardship activities.	✓ The RI sub-committee's terms of reference include to 'review investment managers' company engagement and voting decisions and when necessary engage directly and indirectly with investment managers (and where possible directly with companies the Pension Fund is invested in) to make representations concerning ESG as appropriate'
5 Be willing to act collectively with other investors where appropriate.	✓ Through investment pooling with ACCEESS, Hampshire has a greater weight of influence in terms of overall shareholding. The Pension Fund would also be open to approaches to act collectively from any other investors.
6 Have a clear policy on voting and disclosure of voting activity.	✓ The voting policy is part of the RI policy and voting activity is reported to the RI sub-committee

Principle	Status
7 Report periodically on their stewardship and voting activities.	✓ Stewardship and voting activity will form part of the Fund's annual RI report

2019 consultation on amendments to the Stewardship Code

6. The consultation in early 2019 proposed amendments to the Code's principles and new provisions for signatories to demonstrate how they are implementing the principles, which are shown in Appendix 2. The updated principles and provisions provide a more detailed framework for how stewardship is demonstrated. The Pension Fund should still be able to comply with the proposed principles with minor updates to its RI policy, such as adding a section on managing conflicts of interest and by using the principles as a basis for the intended annual RI report.

Requirements of signatories

7. There is no annual fee for being a UK Stewardship code signatory. The FRC expects signatories of the Code to publish on their website a statement that:
- describes how the signatory has applied each of the seven principles of the Code and discloses the specific information requested in the guidance to the principles; or
 - if one or more of the principles have not been applied or the specific information requested in the guidance has not been disclosed, explains why the signatory has not complied with those elements of the Code.
8. The 2019 consultation on changes to the Code added a further requirement, that:
- provides an evaluation of how well stewardship objectives have been met and the outcomes achieved.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	No
People in Hampshire live safe, healthy and independent lives:	No
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: For the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents	
<p>The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)</p>	
<u>Document</u>	<u>Location</u>
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

Extract of Stewardship Code signatories

Tier 1

Avon
Bedfordshire
Clwyd
Cumbria
Derbyshire
Devon
East Riding
East Sussex
Environment Agency
Greater Manchester
Lancashire
Lincolnshire
London Borough of Camden
London Borough of Hackney
London Borough of Haringey
London Pension Fund Authority
North Yorkshire
Staffordshire
South Yorkshire
Tyne and Weir
Warwickshire
West Midlands
West Yorkshire
Wiltshire
Worcester

Board to Coast Pension Partnership
LGPS Central
Local Pensions Partnership
London CIV

Tier 2

Devon
Gwynedd
London Borough of Bexley
London Borough of Ealing
London Borough of Hillingdon
Merseyside
Somerset

Proposed updated UK Stewardship Code principles and provisions

1 Purpose, Objective and Governance

Principles

- A. Signatories must develop their organisational purpose and disclose how their purpose, strategy, values and culture enable them to fulfil their stewardship objectives.
- B. Signatories must develop and disclose their stewardship approach and objectives, and how they serve the interests of clients and beneficiaries.
- C. Signatories' governance, processes, resources and remuneration must support the delivery of their stewardship objectives.
- D. Signatories must establish policies to manage conflicts of interest, which put the interests of beneficiaries and/or clients first.

Provisions

1. Signatories should clearly disclose if, and how, stewardship policies and practices differ across asset allocation.
2. Signatories should explain what activities they undertake to interact with other stakeholders and exercise their role as stewards of the market.
3. Signatories should have appropriate governance policies and/or structures to enable the delivery of their stewardship obligations.
4. Signatories should ensure their workforce has appropriate experience, qualifications and/or oversight to deliver their stewardship obligations.
5. Signatories should explain how they ensure the organisation has appropriate incentives in place for the delivery of the investment strategy and stewardship objectives.
6. Signatories should explicitly state their stewardship objectives and their expectations of stewardship activities when inviting tenders, selecting service providers and designing mandates.
7. Signatories should disclose their conflicts of interest policy and how it has been applied.
8. Signatories should disclose how they review and assure their stewardship objectives, and policies, processes, activities and reported outcomes.

2 Investment Approach

Principles

- E. Signatories must integrate stewardship with their investment approach and demonstrate how they take into account material ESG factors, including climate change.
- F. Signatories must actively demonstrate how prospective and current investments are aligned with their stewardship approach.

Provisions

9. Signatories should disclose the structures and processes they have in place to ensure that information gathered through stewardship activities is factored directly into investment decision-making.
10. Signatories should state their investment time horizon.

11. Signatories should ensure that the investment and stewardship mandates that they issue appropriately reflect the investment time horizon of their beneficiaries and demonstrate how they take ESG issues into account.

12. Signatories should disclose their investment beliefs.

13. Signatories should provide clear and actionable criteria for managers to assess assets against, including prior to investment, to ensure they are appropriate investments to make in accordance with their investment and stewardship strategy.

3 Active Monitoring

Principles

G. Signatories must actively monitor the performance of the assets for which they are responsible and/or the managers and service providers that they use.

Provisions

14. Signatories should actively monitor issues that may impact the value of assets held over the investment time horizon of beneficiaries and/or clients, identify key priorities, and use this information to inform their stewardship activities and communication with managers and/or service providers.

15. Signatories should actively monitor asset managers to ensure that assets managed on their behalf are aligned with their investment and stewardship policies.

16. Signatories should actively monitor service providers to ensure that their services enable effective stewardship.

4 Constructive engagement and clear communication

H. Signatories must undertake constructive engagement to maintain or enhance the value of assets.

I. Signatories must communicate clearly with clients and beneficiaries.

Provisions

17. Signatories should establish and publicly disclose an engagement policy.

18. Signatories should describe how they integrate engagement into their investment strategy.

19. Signatories should describe what methods they use for engagement, and escalation if required, to enhance the value of assets.

20. Signatories should state the extent to which they participate in collaborative engagement.

21. Signatories should disclose engagement activity undertaken on their behalf and communicate to beneficiaries about how they have fulfilled their stewardship responsibilities.

22. Signatories should describe how they take account of beneficiaries' needs and the extent to which they seek to engage with beneficiaries to understand their views.

5 Exercise rights and responsibilities

Principles

J. Signatories must actively exercise their rights and responsibilities.

Provisions

23. Signatories should explain how they exercise ownership rights across different markets and asset classes.

24. Signatories should indicate which, if any, proxy voting adviser(s) they use, the scope of services procured and how advice/information received is used as part of the signatories' stewardship activities.

25. Signatories should explain their policy on voting shares in listed assets, including:

- the extent to which the fund sets its own voting policies;
- the extent to which voting decisions are executed by another entity;
- how they monitor service providers' voting on their behalf;
- how the asset owner monitors the voting rights it has;
- the funds' approach to stock lending and recalling lent stock for voting;
- votes withheld if applicable.

26. Signatories should disclose their voting records.

27. Signatories should explain their policy on bond engagement, including the extent to which they engage pre- and post-issuance of bonds.

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Responsible Investment Sub-Committee
Date:	3 September 2019
Title:	Principles for Responsible Investment
Report From:	<i>Director of Corporate Resources – Corporate Services</i>

Contact name: Andrew Boufflower

Tel: 01962 847407

Email: andrew.boufflower@hants.gov.uk

Purpose of this Report

1. This report provides information on signing the United Nations Principles of Responsible Investment (PRI).

Recommendations

2. That the RI sub-committee recommends to the Pension Fund Panel and Board that the Hampshire Pension Fund signs the PRI.

Executive Summary

3. In 2005 the United Nations invited a group of the world's largest institutional investors to join a process to develop the PRI, which were launched the following year. There are now nearly 500 asset owners with over \$10tr of assets that are signatories to the principles. The PRI is an internationally recognised standard and allows signatories to publicly demonstrate their commitment to responsible investment.
4. The PRI is a not-for-profit independent body. It encourages investors to use responsible investment to enhance returns and better manage risks. It engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations. Signing up to the PRI is open to asset owners, investment managers and service providers. A list of other LGPS funds/pools and Hampshire's investment managers (all of which are signatories) that are existing signatories is shown in Appendix 1.

5. The request that Hampshire become a signatory to the PRI was mentioned by a number of the respondents to the Pension Fund’s consultation on its revised RI policy, including the deputation received from Winchester Action on Climate Change.

PRI

6. The six PRI are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The PRI describe its principles as ‘for most signatories, the commitments are a work-in-progress and provide direction for their responsible investment efforts, rather than a checklist with which to comply’.
7. The table below lists the principles and a summary of Hampshire’s current position in relation to them. If the Hampshire Pension Fund was to become a signatory the reporting of progress against the principles would become a feature of the Fund’s annual RI report, which it has committed to produce as part of its updated RI policy.

Table 2: Principles for Responsible Investment

	Criteria	Current position
1	We will incorporate ESG issues into investment analysis and decision-making processes.	The RI policy describes how the Pension Fund requires its investment managers to account for ESG factors in their investment decisions
2	We will be active owners and incorporate ESG issues into our ownership policies and practices.	The RI policy requires the Pension Fund’s investment managers to work in a consistent and transparent manner with the companies they invested in to ensure they achieve the best possible outcomes for the Pension Fund, including forward-looking ESG standards. This includes requiring investment managers to exercise the Fund’s responsibility to vote on company resolutions wherever possible.
3	We will seek appropriate disclosure on ESG issues by the entities in which we invest.	
4	We will promote acceptance and implementation of the Principles within the investment industry	In its selection of investment managers, the Pension Fund considers their ability to manage ESG issues. All of the Pension Fund’s investment managers are

		PRI signatories
5	We will work together to enhance our effectiveness in implementing the Principles	The Pension Fund will play a full part in developing ACCESS' approach to RI
6	We will each report on our activities and progress towards implementing the Principles	In its updated RI policy, the Pension Fund has committed to annual reporting, which will include its implementation of the Principles

8. There are three minimum criteria to meet to become a PRI signatory, which are listed below along with a brief summary of the Pension Fund's current ability to meet these criteria.

Table 2: PRI minimum criteria

	Criteria		Current position
1	Investment policy that covers the firm's responsible investment approach, covering >50% of assets under management	✓	The Pension Fund's RI policy covers all its investments and specifies the RI requirements for different asset classes
2	Internal/external staff responsible for implementing RI policy	✓	All of the Pension Fund's assets are managed by external investment managers who are required where appropriate to demonstrate how they have considered ESG factors in investment decisions, engage with company management and vote at shareholder meetings. This is monitored by the Pension Fund's officers and reported to the Pension Fund Panel and Board and RI sub-committee
3	Senior-level commitment and accountability mechanisms for RI implementation	✓	The RI policy has been approved by the Pension Fund Panel and Board who have created the RI sub-committee in order to more closely monitor and scrutinise the Fund's RI activity

Requirements of signatories

9. There is an annual fee for being a PRI signatory. For 2019/20 this would be £6,529 for a fund of Hampshire's size. Signatories are required to report under the PRI framework each year (after their first year of joining), which is due for submission between January and March. The reporting framework is relatively comprehensive including providing a breakdown of the Fund's assets under management and information on company engagement and voting. Reporting for asset classes that are less than 10% of the total fund is optional, which lessens the reporting burden.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	No
People in Hampshire live safe, healthy and independent lives:	No
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: For the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents	
<p>The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)</p>	
<u>Document</u>	<u>Location</u>
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

Extract of PRI signatories

Local Pensions Partnership
LGPS Central
London CIV
Brunel Pension Partnership

Kent County Council Superannuation Fund
Greater Manchester Pension Fund
West Midlands Pension Fund
Merseyside Pension Fund
Environment Agency Pension Fund

Aberdeen Standard Investments
Acadian Asset Management
Alcentra
Baillie Gifford
Barings
CBRE Global Investors
Dodge & Cox
Grosvenor Europe
JP Morgan Asset Management
Morgan Stanley Investment Management
Schroders
UBS Asset Management

Hymans Robertson LLP

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Panel:	Pension Fund Panel and Board
Date:	27 September 2019
Title:	Governance: Pension administration issues
Report From:	Director of Corporate Resources

Contact name: Lois Downer, Deputy Head of Pension Services

Tel: 01962 847600

Email: lois.downer@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to seek the Panel and Board's approval for the approach taken to address two separate administration issues.

Recommendation(s)

2. It is recommended that the Panel and Board:
 - Approve the inclusion of an amount to cover the expected costs of the McCloud remedy and impact of GMP equalisation in the calculation of exit positions for employers leaving the Fund, as outlined in paragraph 12.
 - Approve the approach taken to determining the administering authority's vote on the proposed Equitable Life transfer, and
 - delegate to the Director of Corporate Resources the authority to vote on the proposed Equitable Life transfer in accordance with the preferences indicated by scheme members.

Executive Summary

McCloud and GMP equalisation

3. Following the Treasury announcement in July that remedies relating to the McCloud judgement will need to be made in relation to all public service pension schemes, LGPS funds have to consider whether to include an amount for the cost of implementing the remedy in calculation of employer contributions at the 2019 valuation. An amount also could be included to cover the costs of GMP equalisation, which are also unknown at this point.

4. The Fund Actuary has advised that in advance of the valuation, an amount for both McCloud and GMP equalisation should be taken into consideration in the calculation of the exit position for any employers who leave the Fund. Until a remedy is agreed, this amount will need to reflect a prudent estimate of the likely additional costs as once an employer has left the Fund, no further contributions can be certified for them.
5. The Funding Strategy Statement (FSS) will be updated to reflect the inclusion of an amount to cover both the McCloud remedy and the likely costs of GMP equalisation in the calculation of employer exits. However as the FSS will not be finalised until December (in line with the valuation timetable) in the interim, the Pension Fund Panel and Board are asked to approve the inclusion of an amount to cover the McCloud remedy and GMP equalisation for any employer exit calculated from 27 September.

Equitable Life transfer

6. Equitable Life is one of the Fund's AVC providers, and has proposed a transfer of its business to Utmost Life and Pensions Ltd. As part of the proposal, with-profits AVC funds will receive a one off uplift but will lose their guaranteed amount. The transfer will only go ahead if a majority of policy holders vote in favour of the transfer, and the administering authority needs to cast its vote on behalf of its scheme members.
7. It is proposed that the Fund splits its vote in proportion to the preferences of scheme members who hold a with-profits AVC with Equitable Life.

McCloud and GMP equalisation

8. LGPS funds are facing uncertain costs in relation to both the McCloud remedy and the impact of GMP equalisation. It is therefore prudent for the Fund Actuary to include an amount for these costs when setting employer contributions and when calculating the exit positions for any employers leaving the Fund before the actual impact is known.
9. As part of the triennial valuation, the Funding Strategy Statement (FSS) is being updated to allow for the changes in assumptions, as well as the changes to the way in which employers are grouped for funding purposes. The FSS will also be drafted to include a section on the way in which McCloud and GMP equalisation will be taken into account in the calculation of employer exit positions.
10. The draft updated FSS will be ready to be issued to employers for consultation following the Annual Employer Meeting on 18 October, prior to the Pension Fund Panel and Board approving the final version at their meeting in December. This is in line with the normal valuation timetable.

11. In the interim before the FSS is approved in December, the Panel and Board are asked to approve the Fund Actuary including an amount in the calculation of employer exits which take place before the revised FSS is in place. This would impact on any exit calculated after 27 September.
12. The actuary has advised that the impact of the McCloud and GMP equalisation will increase the liabilities, although the amount of any increase will not be known until a remedy has been agreed (in the case of McCloud) and the Government has finalised the approach to GMP equalisation and indexation. In order to provide some protection for the employers remaining in the Fund, future exit payments will be calculated assuming that McCloud will lead to a 0.4% increase in the liabilities, and GMP indexation will be provided for in full for all of the employer's members whose State Pension Age is on or after 1 April 2016. This is equivalent to 0.3% of liabilities on average, but could be in excess of 1% of the employer's total liabilities on exit in extreme cases.
13. The approach and allowance will be subject to review on an annual basis or earlier if further information which may affect the additional liabilities becomes available and may be varied on the advice of the Actuary if the employer's membership profile suggests this allowance could materially understate the additional liabilities.

Equitable Life transfer - background

14. Hampshire County Council as the Administering Authority for the Hampshire Pension Fund is the group policy holder for the Equitable Life in-house AVC plan. Within the plan, there are 175 scheme members with an AVC, of which 98 have a with-profits policy that provides a guaranteed amount.
15. On 15 June 2018, Equitable Life announced that it has entered into an agreement to transfer its business to Utmost Life and Pensions (previously Reliance Mutual).
16. The proposal will mean the withdrawal of the guaranteed amount for with-profits policy holders. Under the proposal, Equitable Life will:
 - Increase With-Profits Policy Values with an immediate, one-off Uplift
 - Remove any Investment Guarantees, (including any guaranteed annual increases) and any With-Profits Switching Rights
 - Convert all With-Profits Policies to Unit-Linked Policies

The business will then transfer to Utmost Life and Pensions Ltd, who would then hold the AVC plans on behalf of affected scheme members. The proposal does not impact on the LGPS benefits for scheme members, or on how they can use their in-house AVC fund at retirement.

17. The proposal will only go ahead if a majority of policy holders vote in favour at the Annual General Meeting on 1 November 2019. The deadline for the receipt of postal and online votes is 10am on 30 October 2019.
18. Equitable Life have provided information at scheme member level to show the likely impact of its proposal. These illustrations show that all scheme members would be better off under the proposal under a high or medium projection of likely investment returns, but most would be worse off under the low return projection. Scheme members without a with-profits policy would not be better or worse off under the proposal, and would simply see a change in provider.
19. As the policy holder, it is the Administering Authority who has to vote in favour of or against the proposal, but the vote can be split to reflect the preferences of scheme members. Affected scheme members have been contacted to provide them with information about the proposal including how it might affect the value of their AVC funds. Members who have a with-profits AVC are being asked to indicate how they wish the Fund to cast its vote.
20. The Pension Fund Panel and Board are asked to approve this approach of using scheme member preference to determine the use of the Fund's vote, and to delegate to the Director of Corporate Resources the authority to cast the Fund's vote in line with the responses received from scheme members.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes/no
People in Hampshire live safe, healthy and independent lives:	yes/no
People in Hampshire enjoy a rich and diverse environment:	yes/no
People in Hampshire enjoy being part of strong, inclusive communities:	yes/no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires the Pension Fund Panel and Board to approve an approach on behalf of the administering authority.	

Section 100 D - Local Government Act 1972 - background documents	
<p>The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)</p>	
<u>Document</u>	<u>Location</u>
None	

EQUALITIES IMPACT ASSESSMENT:

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- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
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- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the information in this report as it affects all scheme members.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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