

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2022-23

**PENSION FUND COMMITTEE
28th OCTOBER 2022**

**REPORT OF: THE DIRECTOR OF FINANCE
AND DIGITAL SERVICES**

AGENDA ITEM NO. 4
DELEGATED FUNCTIONS – UPDATE REPORT

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1.0 PURPOSE OF REPORT

- 1.1 This report sets out the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement, by the Director of Finance and Digital Services.

2.0 RECOMMENDATIONS

- 2.1 It is recommended that the Committee:
- 2.1.1 Note the issues being addressed; and
- 2.1.2 Consider whether they wish to receive further detail on any issues.

3.0 BACKGROUND

- 3.1 The Director of Finance and Digital Services (in their capacity as S151 officer) supported by an Investment and Administration Advisory Panel with appropriate officer, independent advisor and professional support, has delegated responsibility for all day-to-day operational matters.
- 3.2 The Panel advises on all aspects of the Pension Fund. It produces the annual report to Committee and is subject to Audit scrutiny. Areas upon which it gives advice are: -
- Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator and independent professional advisers.

- Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.
- Agreeing the terms and payment of bulk transfers into and out of the Fund.
- Agreeing Fund business plans and monitoring progress against them.
- Maintain the Fund's Knowledge and Skills Policy for all Pension Fund Committee Members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.
- Formulating responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.
- Ensuring the Fund is managed and pension payments are made in compliance with the extant Local Government Pension Scheme Legislation, Her Majesty's Revenue & Customs requirements for UK registered pension schemes and all other relevant statutory provisions.
- Ensuring robust risk management arrangements are in place.
- Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non-statutory best practice guidance in relation to its management of the Fund.
- Monitor investment performance.
- Work with the Fund Actuary to determine the level of employer contributions required from each employer within the Fund and ensure such contributions are received.

3.3 The Investment and Administration Advisory Panel meets on a quarterly basis, the most recent meeting taking place on the 28th September 2022.

4.0 INVESTMENT PERFORMANCE

4.1 There is a quarterly reporting cycle for pension fund investment performance, with exception reporting agreed with fund managers where there are particular concerns. The most recent Panel Meeting considered investment performance to the end of June 2022.

4.2 During the quarter ended 30th June 2022, the overall value of the Fund decreased from £4,510 million to £4,108 million.

- 4.3 A summary of performance relative to the Fund specific benchmark is shown below.

Total Portfolio

	2019		2020				2021				2022		3yr
Quarter	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Fund	1.9	2.6	-11.4	16.6	3.5	9.5	1.6	5.4	0.3	1.6	-6.5	-8.9	4.3
B'mark	3.1	0.7	-10.6	12.5	1.6	6.5	1.1	5.1	0.7	4.2	-3.2	-6.8	4.4
Relative	-1.2	1.9	-0.8	4.1	1.9	3.0	0.5	0.3	-0.4	-2.6	-3.3	-2.1	-0.1

- 4.4 As shown, the rolling 3-year performance of the Fund is 4.3% positive as compared to benchmark of 4.4%. For the last quarter (i.e. quarter 2), Global Growth high alpha equity portfolio and Global Opportunities high alpha equity outperformed their benchmarks; Baillie Gifford traditional equity portfolio, UK Credit, CBRE Property and BlackRock passive equity underperformed their benchmarks; and BlackRock passive UK gilts performed in line with their benchmark.
- 4.5 The June 2022 Panel included a review of fund managers' performance. Presentations were received from Baillie Gifford, the traditional equity manager, Pzena, one of the Global Growth managers. An update was provided from Mercer Performance Services who are employed by the Fund to measure the performance of the Fund as a whole and the performance of the fund managers against agreed benchmarks.
- 4.6 The asset allocation of the Fund by fund manager and mandate as at 30th June 2022 (which includes cash) is shown in the table below.

Baillie Gifford Traditional	Global Equities	18%
Link – Global Opportunities Fund	Global High Alpha Equities	9%
Link – Global Growth Fund	Global High Alpha Equities	34%
Link – UK Credit Fund	UK Credit	13%
BlackRock	Passive Global Equities	5%
Blackrock	Passive UK Gilts	12%
CBRE	UK Property	8%
Internal	Cash	1%

- 4.7 As Members will be aware the March 2021 meeting of the Committee agreed to the revised asset allocation strategy for the Fund and the steps to be taken to move towards the preferred strategy together with the current allocation as show in the table below.

Asset Class	Current Allocation	Step 1	Step 2	Step 3
Total Equities	66%	64%	59%	54%
Infrastructure	0	0	5%	10%
Property	8%	7%	7%	7%
Government Bonds (UK)	12%	12%	12%	12%
Corporate Bonds (UK)	13%	15%	15%	15%
Cash	1%	2%	2%	2%
Absolute Return (10 years pa)		5.3%	5.5%	5.6%
Volatility (10 years pa)		13.3%	12.7%	12.3%

- 4.8 With regard to infrastructure, the approach is for the Fund to invest over a number of years in order to secure and optimise opportunities across the different time periods (and vintage years).
- 4.9 Baillie Gifford's global core mandate has been reduced by £180 million which has been transitioned to UK government bonds, with a further £45 million reduction transferred to UK corporate bonds.
- 4.10 The Pension Fund is progressing the investment into Blackrock GIS 4 Infrastructure Fund. Capital contributions to date total £18.609 million.
- 4.11 The compilation of the Pension Fund draft Statement of Accounts for 2021/22 has been completed and the external audit process is progressing.

5.0 ADMINISTRATION UPDATE

- 5.1 Annual Benefit Statements were published on the 22nd August, prior to the statutory deadline date of 31st August (for active and deferred scheme members), and work is underway to compile the Annual Pension Fund Report 2021/22.
- 5.2 Further to the publication of the Government 2020 consultation response, it is anticipated that the Scheme Advisory Board will resume their McCloud implementation groups (including representatives of different LGPS stakeholders). Alongside the response, an updated version of the draft regulations implementing the McCloud remedy will be published reflecting the new powers the statutory underpin, as well as technical feedback and any changes in policy. To ensure the updated draft regulations are accurate in light of the changes made, they will be subject to a further period of consultation early in 2023, and regulations will be made later in 2023 and will come into force on 1st October 2023.

- 5.3 The Scheme Advisory Board no longer require scheme 'death statistics', however the Fund will continue to collate up to the Valuation date. The Fund's statistics are shown in the table below:

Comparison of Number of Fund Deaths

Month	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
January	94	83	61	-
February	37	98	52	-
March	82	64	60	-
April	50	50	129	39
May	55	41	66	51
June	49	35	66	46
July	52	41	65	43
August	57	39	38	46
September		56	54	55
October		48	59	84
November		62	66	61
December		56	55	43

- 5.4 The 2022 valuation exercise is progressing in accordance with the agreed timetable. Officers have met with the Fund Actuary on a number of occasions to discuss and agree appropriate key assumptions for the diverse range of Employers that participate in the RCT Pension Fund. Employer results will be provided to the Fund Employers at the earliest opportunity to support their budgetary arrangements.
- 5.5 With regard to communication with Fund members, letters have been issued to members signposting that Annual Benefit Statements have been published on the Member Self-Serve (MSS) web-site and promoting digital take-up. In parallel, a new targeted survey of membership experience is underway asking recent retirees about their Service experience; based on feedback received for August 2022, the average score for service was 4.3 out of 5. This information will inform on-going work in this area taking into account comments and suggestions fed back by Fund members.
- 5.6 The McCloud Working Group is making good progress on data collection through on-going engagement and data validation with employers.
- 5.7 A Life Certification exercise is progressing to provide assurance on the details / status of Members that live abroad, and work is on-going between officers from the Pension Service and the Council's Information Management team around the due diligence requirements.
- 5.8 Member Self-Serve (MSS) continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown below (as at August 2022).

	Member Numbers	MSS Registrations	Current Percentage Take-up	Percentage Reported Previously
Active	24,256	11,006	45.37%	44.68%
Deferred	29,157	10,033	34.41%	33.65%
Pensioners	18,541	5,278	28.47%	27.20%
Dependents	2,970	169	5.69%	5.61%

- 5.9 In respect of the Fund's Additional Voluntary Contributions partner, improvement in turnaround times are continuing as the provider's resolution action plan is implemented, this being in line with the position reported to the July Pension Fund Committee, and performance will continue to be monitored by the Scheme Advisory Board and locally by the Fund.
- 5.10 The Service's eight 'Key Performance Service Standards' are regularly monitored by the Panel and Pension Board. In general, performance and service volumes remain positive and close on-going monitoring and support is in place as part of performance management and team development arrangements.
- 5.11 The number of 'Internal Dispute Resolution Procedure' Appeals in progress continues to be extremely low, with no obvious trends or concerns to report

6.0 PENSION BOARD

- 6.1 The Pension Board last met virtually on 11th July 2022. There were no items noted for referral back to Committee.
- 6.2 The next Pension Board meeting will be held on a hybrid basis and is scheduled to take place on the 17th October 2022.
- 6.3 Pension Board Members have continued to support their skills and knowledge requirement, through their attendance at relevant events.

7.0 OTHER ISSUES

- 7.1 The Panel reviewed the skills and knowledge framework and noted the updates.
- 7.2 The Risk Register was considered, and updates noted. A review of the Risk Register is being dealt with elsewhere in this agenda.
- 7.3 Attached at Appendix 1 is the latest LAPFF quarterly engagement report for the period April to June 2022

8.0 **CONCLUSION**

- 8.1 This report sets out, for the Committee, the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement, by the Director of Finance and Digital Services.
