



Pension Fund Committee

Date Monday 26 July 2021
Time 10.00 am
Venue Council Chamber, County Hall, Durham

Business

Part A

Items which are open to the Public and Press

1. Apologies for absence
2. Declarations of interest (if any)
3. The Minutes of the Meeting held on 11 March 2021 (Pages 23 - 32)
4. Overall Value of Pension Fund Investments to 31 March 2021 (Pages 33 - 36)
5. Performance Measurement of Pension Fund Investments to 31 March 2021 (Pages 37 - 46)
6. Internal Audit Progress Report to 31 March 2021 (Pages 47 - 50)
7. Regulatory and Administration Update (Pages 51 - 70)
8. Feedback from Local Pension Board
9. Such other business as, in the opinion of the Chairman of the Meeting is of sufficient urgency to warrant consideration
10. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

Part B

Items during which it is considered the meeting will not be open to the public (consideration of exempt or confidential information)

11. The Minutes of the Meeting held on 11 March 2021 (Pages 71 - 82)
12. Pension Fund Procurement - Investment Consultancy (Pages 83 - 86)
13. Investment Strategy Review Update (Pages 87 - 142)
14. Report of the Pension Fund Adviser (Pages 143 - 178)
15. Report of Independent Investment Adviser (Pages 179 - 208)
16. Border to Coast Pensions Partnership Quarterly Investment Report (Pages 209 - 234)
17. Report of Alliance Bernstein (Pages 235 - 252)
18. Report of BlackRock (Pages 253 - 268)
19. Report of Mondrian Investment Partners (Pages 269 - 276)
20. Report of CBRE Global Investment Partners (Pages 277 - 292)
21. Border to Coast Pensions Partnership Private Monitor Report (Pages 293 - 336)
22. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration

Helen Lynch

Head of Legal and Democratic Services

County Hall
Durham
16 July 2021

To: The Members of the Pension Fund Committee

County Council Members:

Councillors B Kellett, M Abley, J Atkinson, K Earley, C Fletcher, C Martin, J Shuttleworth, M Stead, D Sutton-Lloyd and C Varty

Darlington Borough Council Members

Councillors C Johnson and M Renton

Scheme Member Representatives

A Delandre and J Taylor

Further Education Colleges Representative

A Broadbent

Scheduled Bodies Representative

(vacant)

Admitted Bodies Representative

(vacant)

Advisers:**County Council Officers**

J Hewitt, P Darby, H Lynch, P Cooper, B White

Independent Advisers

S Dickson - Mercer

A Fletcher – MJ Hudson Allenbridge

Investment Managers

Alliance Bernstein

BlackRock

CBRE

Mondrian

BCPP

Observers

N Hancock – UNISON and Local Pension Board

L Timbey - GMB

Councillor A Hopgood and L Oliver – Local Pension Board

Contact: Jill Errington

Tel: 03000 269703

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Pension Fund Committee



Abbreviations

List of commonly used abbreviations

AB	Alliance Bernstein, the Fund's Bonds manager
ACS	Authorised Contractual Scheme, the collective investment scheme used by BCPP for asset pooling
AUM	Assets Under Management
BCPP	Border to Coast Pensions Partnership, the Fund's asset pool
CBRE	Coldwell Banker Richard Ellis, the Fund's Real Estate manager
CEO	Chief Executive Officer
CIO	Chief Investment Officer
CIPFA	The Chartered Institute of Public Finance and Accountancy
CLG	Communities and Local Government (former name of MHCLG)
COO	Chief Operating Officer
COP	Conference of Parties, a UN conference on climate change
CPI	Consumer Price Index
CSR	Corporate Social Responsibility, a term under which companies report their social, environmental and ethical performance
DAA	Dynamic Asset Allocation
DGF	Diversified Growth Fund

EM	Emerging Markets
EMEA	Europe, Middle East & Africa
ESG	Environmental, Social, and Governance – factors in assessing an investment’s sustainability
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSS	Funding Strategy Statement
FTA	FTSE Actuaries UK Gilts Index Series
FTSE	Financial Times Stock Exchange
GEM	Global Emerging Markets
GRESB	Global ESG Benchmark for Real Assets
HMT	Her Majesty’s Treasury
Infra	Infrastructure
IRR	Internal Rate of Return
ISS	Investment Strategy Statement
JC	Joint Committee
LGA	Local Government Association
LGPS	Local Government Pension Scheme
LAPFF	Local Authority Pension Fund Forum
LIBOR	London Inter Bank Offered Rate, a benchmark interest rate at which global banks lend to one another
LPB	Local Pension Board
MAC	Multi Asset Credit
MHCLG	Ministry of Housing, Communities and Local Government
MSCI	formerly Morgan Stanley Capital International, publisher of global indexes

NED	Non-Executive Director
NT	Northern Trust, the Fund's Custodian
OECD	Organisation for Economic Co-operation and Development
PF	Pension Fund
PFC	Pension Fund Committee
PLSA	Pensions and Lifetime Savings Association
PRI	The UN-supported Principles for RI
RI	Responsible Investment
RPI	Retail Price Index
S&P	Standard & Poor's, ratings agency and provider of equity indices
S151	An officer with responsibilities under s151 of the Local Government Act 1972
SAB	Scheme Advisory Board
SDG	the UN's Sustainable Development Goals
SILB	Sterling Index Linked Bonds
SONIA	Sterling Over Night Index Average, the overnight interest rate paid by banks
TCFD	Taskforce on Climate Related Financial Disclosures
TER	Total Expense Ratio
TPR	The Pensions Regulator

Author(s)

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Glossary of commonly used terms

A

Active Management

Appointing investment professionals to track the performance of the Fund's mandates, making buy, hold and sell decisions about the assets with a view to outperforming the market.

Active Member

A current employee who is contributing to the pension scheme.

Actuary

An independent professional who advises the Council in its capacity as Administering Authority on the financial position of the Fund.

Actuarial Valuation

The Fund's actuary carries out a valuation every three years and recommends an appropriate rate of contributions for each of the Fund's participating employers for the following three years. The valuation measures the Fund's assets and liabilities, with contribution rates set according to the Fund's deficit or surplus.

Additional Voluntary Contributions (AVCs)

An option available to active members to build up a pot of money which is then used to provide additional pension benefits. The money is invested separately with one of the Fund's external AVC providers.

Administering Authority

The LGPS is run by local Administering Authorities. An Administering Authority is responsible for maintaining and investing its own Fund for the LGPS.

Admission/Admitted Body

An organisation whose employees can become members of the Fund by virtue of an admission agreement made between the council in its capacity as Administering Authority and the organisation. It enables contractors who take on council services to offer staff transferred to the organisation continued membership of the LGPS.

Asset Allocation

The apportionment of the Fund's assets between different types of investment (or asset classes). The long-term strategic asset allocation of the Fund will reflect the Fund's investment objectives and is set out in the Investment Strategy Statement.

Authorised Contractual Scheme (ACS)

A collective investment scheme used by BCPP. An ACS is a form of investment fund that enables a number of investors to 'pool' their assets and invest in a professionally managed portfolio of investments, typically gilts, bonds, and quoted equities. Regulated by the Financial Conduct Authority, it is "tax transparent"; making it particularly useful for pooling pension assets.

B

Benchmark

A measure against which the investment policy or performance of an investment manager can be compared.

Border to Coast Pension Partnership (BCPP)

The Fund's chosen asset pool. BCPP has 11 Partner Funds who collectively have around £45bn of assets. The Partner Funds have appointed a Board of Directors, chaired by Chris Hitchen, which is responsible for ensuring that Border to Coast is run effectively and in line with the guiding principles set by the shareholders. The Chief Executive Officer, Rachel Elwell, is responsible for the day to day running of Border to Coast along with her team.

Border to Coast Joint Committee

As part of their oversight, BCPP Partner Funds formed a Joint Committee which consists of the Chairs of each of the Partner Fund Pension Committees together with other non-voting representatives.

C

CARE (Career Average Revalued Earnings)

From 1 April, 2014, the LGPS changed from a final salary scheme to a Career Average (CARE) scheme. The LGPS remains a defined benefit scheme but benefits built up from 2014 are now worked out using a member's pay each scheme year rather than the final salary at leaving.

Cash Equivalent Value (CEV)

This is the cash value of a member's pensions rights for the purposes of divorce or dissolution of a civil partnership.

Consumer Price Index (CPI)

A method of measuring the changes in the cost of living, similar to the Retail Price Index. Since April 2011 LGPS pensions are increased annually in line with movement in the Consumer Price Index during the 12 months to the previous September.

Commutation

A scheme member may give up part or all of the pension payable from retirement in exchange for an immediate lump sum.

Convertible Shares

Shares that include an option for holders to convert into a predetermined number of ordinary shares, usually after a set date.

Custodian

A financial institution that holds customers' securities for safekeeping to minimise the risk of theft or loss. Most custodians also offer account administration, transaction settlements, collection of dividends and interest payments, tax support and foreign exchange. Custody is currently provided to the Fund by Northern Trust.

D

Death Grant

A lump sum paid by the Fund to the dependents or nominated representatives of a member who dies.

Deferred Member/Pensioner

A scheme member who has left employment or otherwise ceased to be an active member of the scheme who retains an entitlement to a pension from the Fund.

Defined Benefit Scheme

A pension scheme like the LGPS where the benefits that will ultimately be paid to the employee are fixed in advance and not impacted by investment returns. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the future pension promise.

Denomination

The face value of a bank note, coin or postage stamp, as well as bonds and other fixed-income investments. Denomination can also be the base currency in a transaction or the currency a financial asset is quoted in.

Designating Body

Organisations that can designate employees for access to the LGPS. Employees of town and parish councils, voluntary schools, foundation schools, foundation special schools, among others, can be designated for membership of the scheme.

Discretion

The power given by the LGPS to enable a participating employer or Administering Authority to choose how they will apply the scheme in respect of several its provisions. For some of these discretions it is mandatory to pass resolutions to form a policy as to how the provision will apply. For the remaining discretionary provisions, a policy is advised.

Direct Property

Direct investment in property is buying all or part of a physical property. Property owners can receive rent directly from tenants and realise gains or losses from the sale of the property.

Diversified Growth Funds (DGF)

An alternative way of investing in shares, bonds, property and other asset classes; DGFs are funds that invest in a wide variety of asset classes in

order to deliver a real return over the medium to long-term. The Fund's DGF is managed by BlackRock.

E

Employer Contribution Rates

The percentage of an employee's salary participating employers pay as a contribution towards that employee's LGPS pension.

Employer Covenant

The covenant is an employer's legal obligation and financial ability to support their defined benefit (DB) obligation now and in the future.

Equities

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

ESG

ESG is the consideration of environmental, social and governance factors alongside financial ones in the investment decision-making process. E, S, and G are the three key factors in assessing an investment's sustainability

F

Fiduciary Duty

Fiduciary duties exist to ensure that those who manage other people's money act in beneficiaries' interests rather than their own.

Financial Instruments

Tradable assets of any kind, which can be cash, evidence of an ownership interest in an entity or a contractual right to receive or deliver cash or another financial instrument.

Fixed Interest Securities

Investments, mainly in Government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date that can be traded on a recognised stock exchange in the meantime.

Fund of Funds (FoF)

A fund that holds a portfolio of other investment funds.

G

Guaranteed Minimum Pension (GMP)

The LGPS guarantees to pay a pension that is at least as high as a member would have earned had they not been contracted out of the State Earning Related Pension Scheme (SERPS) at any time between 6 April 1978 and 5 April 1997. This is called the guaranteed minimum pension (GMP).

I

Index

A calculation of the average price of shares, bonds or other assets in a specified market to provide an indication of the average performance and general trends in the market.

Internal Rates of Return (IRR)

The internal rate of return (IRR) is a metric used to estimate the profitability of potential investments. Generally, the higher an IRR, the more desirable an investment is to undertake.

L

Local Government Pension Scheme (LGPS)

The LGPS is collectively the largest public sector pension scheme in the UK, which provides DB benefits to employees of local government employers and other organisations that have chosen to participate.

Local Pension Board (LBP)

Since April 2015, each Administering Authority is required to establish and operate a Local Pension Board. The Pension Board is responsible for assisting the Administering Authority in securing compliance with the LGPS regulations, overriding legislation and guidance from the Pensions Regulator. The Board is made up of equal representation from employer and scheme member representatives.

M

Myners Principles

A set of principles based on Paul Myners' 2001 report, Institutional Investment in the United Kingdom. The Myners' principles for defined benefit schemes cover:

Effective decision-making

Clear objectives

Risk liabilities

Performance assessment

Responsible ownership

Transparency and reporting.

O

Ordinary Shares

An ordinary share represents equity ownership in a company and entitles the owner to vote at the general meetings of that company and receive dividends on those shares if a dividend is payable.

P

Partner Funds

The Fund's chosen asset pool, BCPP, has 11 Partner Funds - Bedfordshire, Cumbria, Durham, East Riding, Lincolnshire, North Yorkshire, South Yorkshire, Surrey, Teesside, Tyne & Wear, Warwickshire.

Pension Liberation Fraud

Members with deferred benefits may be approached by companies offering to release funds early from these benefits. The Pensions Regulator has advised pension funds to make members aware of the potential warning signs of pension liberation fraud.

Pensions Online

The Fund's online portal where scheme members may view their pensions records, complete retirement calculations, and update personal details.

Pensions Regulator

The Pensions Regulator (TPR) is the UK regulator of workplace pension schemes. TPR make sure that employers put their staff into a pension

scheme and pay money into it. TPR also make sure that workplace pension schemes are run properly so that people can save safely for their later years.

Pooled Funds

Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

Pooling in the LGPS

Central government requires local authorities to pool their pension assets, to achieve four principles:

1. Cost savings through economies of scale
2. Improved governance
3. Improved approach to responsible investment
4. Improved ability to invest in infrastructure

Proxy Voting

Proxy voting allows shareholders to exercise their right to vote without needing to attend AGMs. This can involve shareholders with voting rights delegating their votes to others who vote on their behalf.

Q

Quantitative Easing

Quantitative easing (QE) is when a central bank creates new money electronically to buy financial assets like Government bonds with the aim of directly increasing private sector spending in the economy and returning inflation to target.

R

Related Party Transactions

This is an arrangement between two parties joined by a special relationship before a deal, like a business transaction between a major shareholder and a corporation.

Responsible Investment (RI)

Responsible investment involves incorporating environmental, social and governance (ESG) considerations into investment decision-making while practising active ownership. RI can help deliver sustainable, long-term returns for investors.

Retail Price Index

A method of measuring the changes in the cost of living. It reflects the movement of prices covering goods and services over time. Until April 2011, the amount by which LGPS pensions were increased annually was based on movement in the Retail Price Index during the 12 months to the previous September. From April 2011, the Government changed the amount by which pensions increase from Retail Price Index to Consumer Price Index (CPI).

Return

The total gain from holding an investment over a given period, including income and increase or decrease in market value.

Rule of 85

Under previous LGPS regulations, when a member elected to retire before age 65, the Rule of 85 test was used to find out whether the member retired on full or reduced pension benefits. If the sum of the member's age and the number of whole years of their scheme membership was 85 or more, benefits were paid in full. If the total was less than 85, the benefits were reduced. The Rule of 85 was abolished on 1 October, 2006 - however, members contributing to the LGPS prior to this date will have some or all of their pension benefits protected under this rule.

S

Scheduled Body

An organisation that has the right to become a member of the LGPS under the scheme regulations. Such an organisation does not need to be admitted as its right to membership is automatic.

Spot Rate

The price quoted for immediate settlement on a commodity, security or currency. It is based on the value of an asset at the moment of the quote, which in turn is based on how much buyers are willing to pay and how much sellers are willing to accept depending on factors such as current market value and expected future market value.

State Pension Age (SPA)

The earliest age at which State Pension can be paid, which different to the earliest age LGPS may be claimed. Under the current law, the State Pension age is due to increase to 68.

Stock Lending

This is loaning a stock, derivative or other security to an investor or firm. It requires the borrower to put up collateral (cash, security or a letter of credit). When stock is loaned, the title and the ownership is transferred to the borrower and title is returned at the end of the loan period.

T

TCFD

The Taskforce on Climate Related Financial Disclosures was set up to develop voluntary, consistent, climate related financial risk disclosures to guide companies in providing information to investors, lenders, insurers and other stakeholders. It is expected that MHCLG will consult on mandatory TCFD disclosures in the LGPS by the end of 2021.

The Pension Advisory Service (TPAS)

The Pensions Advisory Service (TPAS) gives information and guidance to members of the public on state, company and personal pensions. It helps any member of the public who has a problem with their occupational or private pension arrangement. TPAS is an executive non-departmental public body, sponsored by the Department for Work and Pensions.

Transfer Value

A transfer value is a cash sum representing the value of a member's pension rights.

Transferred Service

Any pension that members have transferred into the LGPS from a previous pension arrangement that now counts towards their LGPS membership.

U

UK Stewardship Code

A code first published by the FRC in 2010 to enhance the quality of engagement between asset managers and companies in the UK. Its principal aim is to make asset managers more active and engaged in corporate governance matters in the interests of their beneficiaries. The Code was revised in 2020.

Unrealised gains/losses

The increase or decrease in the market value of investments held by the fund since the date of their purchase.

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DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held remotely via Microsoft Teams on
Thursday 11 March 2021 at 9.30 am

Present:

Councillor M Davinson (Chair)

Members of the Committee:

Councillors O Temple (Vice-Chair), J Atkinson, J Lethbridge, S Hugill, B Kellett
and J Shuttleworth

Darlington Borough Council Members

Councillors S Durham and C Johnson

Scheme Member Representatives

John Taylor

Further Education Colleges Representative

Andrew Broadbent

Council Advisers

Paul Darby – Corporate Director of Resources (Interim)

Paul Cooper – Pensions Manager

Bryan Smith – Litigation Manager

Beverley White – Finance Manager

Independent Advisers

Sandy Dickson – Mercer

Anthony Fletcher – MJ Hudson

Observers

Councillor A Hopgood - Local Pension Board

Les Timbey – GMB Branch Officer

Daniel Reay – Mazars

Jamie Roberts – BCPP

1 Apologies for Absence

Apologies for absence were received from Councillors C Carr, J Carr and M Wilson (Durham County Council).

2 Declarations of interest

There were no declarations of interest.

3 Minutes

The minutes of the meeting held on 3 December 2020 were confirmed as a correct record and would be signed by the Chair.

4 Pension Fund Committee Training

The Committee considered a report of the Corporate Director of Resources (Interim) which provided an overview of the issues considered by the Committee at training held since the last meeting (for copy see file of minutes).

Resolved:

That the information contained in the report be noted.

5 Overall Value of Pension Fund Investments to 31 December 2020

The Committee considered a report of the Corporate Director of Resources (Interim) which provided an update on the overall value of the Pension Fund's investments at 31 December 2020, movement in the cash balance during the last four quarters (for copy see file of minutes).

Resolved:

That the information contained in the report be noted.

6 Performance Measurement of Pension Fund Investments to 31 December 2020

The Committee considered a report of the Corporate Director of Resources (Interim) which provided an overview of the performance of the Pension Fund's assets to 31 December 2020 (for copy see file of minutes).

Resolved:

That the information contained in the report produced by the Fund's custodian, Northern Trust be noted.

7 Provision of Treasury Management Services to the Pension Fund for 2021/22

The Committee considered a report of the Corporate Director of Resources (Interim) which updated Members of the Treasury Management Services provided to the Pension Fund and reviewed the charges for the services and the calculation of interest on short term investments administered by Durham County Council for 2021/2022 (for copy see file of Minutes).

Resolved:

That

- a) the Pension Fund continues to invest its cash balances with the Council in line with the Council's Treasury Management Strategy;
- b) interest be paid quarterly to the Pension Fund at a rate based on the daily cash balance and the three month rate of return earned by the Council on its own short term investments;
- c) an administration fee of £2,770 per quarter be paid to the Council for Treasury Management services;
- d) in the event of the loss of an investment, the Pension Fund will bear the loss in proportion of the cash balances held at the time of the investment with Durham County Council.

8 Short Term Investments for the Period Ended 31 December 2020

The Committee considered a report of the Corporate Director of Resources (Interim) which provided information on the performance of the Pension Fund's short-term investments as at 31 December 2020 (for copy see file of Minutes).

Councillor J Shuttleworth asked as regards the interest rate of 0.5 percent, noting it had been 0.75 percent previously. The Finance Manager noted the rate was based upon the types of investments, as per the Treasury Management Strategy, and the ability to be able to access funds as required.

Councillor J Atkinson asked whether there was a risk-based limit in terms of which funds could be invested in. The Finance Manager noted that the Treasury management Advisors regularly provided updated lists of the financial institutions in which we were able to invest, based upon the requisite credit rating.

Resolved:

That the position at 31 December 2020 regarding the Pension Fund's short-term investments where the Pension Fund's surplus cash holding was £39.290 million and £2,605 net interest was earned in the three month period be noted.

9 Internal Audit Progress Report to 31 December 2021

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which informed Members of the work that had been carried out by Internal Audit during the period 1 April 2020 to 31 December 2020 as part of the 2020/2021 Internal Audit Plan (for copy see file of minutes).

The Vice-Chair, Councillor O Temple congratulated the Pensions Team in achieving so many "substantial" opinions, a credit to their work. The Chair also thanked the Team and noted the confirmation via External Audit was reassuring.

Resolved:

That the work undertaken by Internal Audit during the period ending 31 December 2020 be noted.

*Councillors S Durham, J Lethbridge and
Mr J Taylor entered the meeting at 9.45am*

10 Draft Audit Plan 2021/2022

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which presented the proposed Annual Audit Plan for 2021/2022 (for copy see file of Minutes).

Resolved:

That the proposed Audit Plan for 2020/2021 be approved.

11 Agreement of Accounting Policies for Application in the 2020/21 Financial Statements of the Pension Fund

The Committee considered a report of the Corporate Director of Resources (Interim) which updated the Committee on the accounting policies to be applied in the preparation of the 2020/21 financial statements of the Pension Fund and sought confirmation from the Committee that appropriate policies were being applied (for copy see file of Minutes).

The Committee having reviewed the accounting policies **Resolved:**

That

a) they be used in the preparation of the 2020/2021 financial statements for the Pension Fund;

b) the Corporate Director of Resources (Interim) be authorised to revise the accounting policies as necessary, and report any significant changes to the Committee.

12 Pension Fund Policy Documents - Funding Strategy Statement

The Committee considered a report of the Corporate Director of Resources (Interim) which informed Members of the draft of the revised Funding Strategy Statement (FSS) which is currently out to consultation with Pension Fund employers (for copy see file of Minutes).

Councillor J Shuttleworth referred to paragraph 76 within the draft FFS and asked regards the case of a negative interest rate. The Pensions Manager noted that if structural or long-term, then Advisors would give a view, however, if short-term then this would not be an issue in respect of the long-term strategy.

The Committee having considered the draft FSS and appendices **Resolved:**

That the report be noted and the Corporate Director of Resources (Interim) be authorised to finalise the wording of, and publish the FSS; and to expand the existing Exits Policy in respect of employer flexibilities, taking into account where appropriate both professional advice as well as comments received from employers.

13 Pension Administration Report

The Committee considered a report of the Corporate Director of Resources (Interim) which briefed Members on development matters which were Local Government Pension Scheme (LGPS) specific and non-LGPS matters which were of interest (for copy see file of Minutes).

Councillor J Atkinson referred to the consultation on minimum pension age and asked as regards any potential criticisms to the proposals. The Pensions Manager noted it had always been an intention of Government to link the minimum pension age to the state pension age and there would likely be more debate closer to the proposed implementation date of 2028.

Resolved:

That the report be noted.

14 Feedback from Local Pension Board

The Pensions Manager noted the last meeting of the Local Pension Board had taken place on 3 December 2020, with Councillor A Hopgood elected as Chair. It was added that, in line with the terms of reference, there would be two meetings within the calendar year. It was noted the Local Pension Board would be meeting later today and discuss the items considered by the Committee.

The Chair asked if there had been any feedback from their last meeting, it was noted there was no feedback from the Local Pension Board.

15 Any other business

The Chair noted it was the last meeting of the Pension Fund Committee prior to Local Government Elections and he wished to note his thanks on behalf of the Pension Fund to the Members of the Pension Fund Committee and the Local Pension Board for their diligence and dedication over the last four years. He wished those Committee Members who were not standing in the elections all the best for the future and good luck to those standing for election.

The Chair added that, over the last four years, the level of the Pension Fund had increased from 81 percent to 93 percent despite the recent uncertainties around COVID-19. He added that the transition of funds into the Border to Coast Pensions Partnership (BCPP) was ongoing and would result in a reduction in fees. The Chair praised the excellent work of the Officers and Advisors in helping the Committee fulfil the aims of the Pension Fund and thanked the Vice-Chair for his help and support over the last four years.

Councillor J Shuttleworth thanked the Chair for his fair-handed approach and wished him well for the future. Councillor J Lethbridge thanked the Chair and Vice-Chair for their time, together with all the excellent work of the Officers, in support of the Committee. All Members agreed.

16 Exclusion of the Public

Resolved:

That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.

17 Minutes

The minutes of the meeting held on 3 December 2020 were confirmed as a correct record and would be signed by the Chair.

18 Investment Strategy Review Update

The Committee considered a report of the Corporate Director of Resources (Interim) which provided an update on progress made towards implementing asset allocation decisions (for copy see file of minutes).

Resolved:

That the recommendations in the report be approved.

19 Report of the Pension Fund Adviser

The Committee considered the report of the Independent Adviser, Sandy Dickson of Mercer (for copy see file of minutes).

Resolved:

That the information contained in the report be noted.

20 Report of Independent Adviser

The Committee considered a report of the Independent Investment Adviser, Anthony Fletcher of MJ Hudson (for copy see file of minutes).

Resolved:

That the information contained in the report be noted.

21 Report of Alliance Bernstein

Consideration was given to a report from Alliance Bernstein which included:

- a) Manager's views on the economy and investment strategy for the future;
- b) Investment Policy;
- c) List and valuation of investment holdings.

Resolved:

That the information contained in the report be noted.

22 Report of BlackRock

Consideration was given to a report from BlackRock which included:

- a) Manager's views on the economy and investment strategy for the future;
- b) Investment Policy;
- c) List and valuation of investment holdings.

Resolved:

That the information contained in the report be noted.

23 Report of CBRE Global Investment Partners

Consideration was given to a report from CBRE which included:

- a) Manager's views on the economy and investment strategy for the future;
- b) Investment Policy;
- c) List and valuation of investment holdings.

Resolved:

That the information contained in the report be noted.

24 Report of Mondrian Investment Partners

Consideration was given to a report from Mondrian which included:

- a) Manager's views on the economy and investment strategy for the future;
- b) Investment Policy;

c) List and valuation of investment holdings.

Resolved:

That the information contained in the report be noted.

25 Report of Border to Coast Pensions Partnership

Jamie Roberts provided an update to Members on progress with the Border to Coast Pensions Partnership which included:

- a) Manager's views on the economy and investment strategy for the future;
- b) Investment Policy;
- c) List and valuation of investment holdings.

Resolved:

That the information contained in the report be noted.

26 Border to Coast Pensions Partnership Private Monitor Report

The Committee considered a report of Northern Trust which provided an analysis of cash flow, portfolio funding, partnership performance and comparative analysis to 30 September 2020 (for copy see file of minutes).

Resolved:

That the information contained in the report be noted.

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Pension Fund Committee

26 July 2021

**Overall Value of Pension
Fund Investments to 31 March 2021**



Report of Paul Darby, Corporate Director of Resources (Interim)

Purpose of the Report

1. To provide an update to Members on the:
 - (a) overall value of the Pension Fund's investments at 31 March 2021;
 - (b) movement in the cash balance during the last four quarters.

Executive Summary

2. Appendix 1 details the working cash balance position of the Pension Fund and actual cash flow for the last four quarters. At 31 March 2021 the value of the Fund was £3.433 billion and the cash balance held in the Durham County Council Pension Fund bank account was £43.059 million. Fund Managers also held cash of £45.761 million at that date.

Recommendation

3. Members are asked to note the information contained within this report.

Background

Value of the Pension Fund

4. Reports from the five appointed fund managers, namely:
 - AB
 - BlackRock
 - BCPP
 - CB Richard Ellis
 - Mondrian

are included in Part B of today's agenda.

5. The value of the Fund at 31 March 2021 was £3.433 billion compared to £3.391 billion at 31 December 2020. This is an increase of £0.041 million (or 1.22%) in the fourth quarter of 2020/21.

Allocation of New Investment Money / Withdrawal of Investment Money to Deal with Estimated Shortfall

6. New investment money is allocated to fund managers when the Pension Fund has cash which is not required to be available as a working cash balance, for example to pay pensioners or fees.
7. When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from fund managers.
8. Appendix 1 details the working cash balance position of the Pension Fund and actual cash flow for the last four quarters. As at 31 March 2021 the cash balance held in the Durham County Council Pension Fund bank account was £43.059 million. In addition to this, not included in this table, fund managers were holding cash of £45.761 million at 31 March 2021.
9. During the quarter ending 31 March 2021, further drawdowns totalling £4.972 million were made to BCPP, to invest in private equity, infrastructure and private credit.

Fund Rebalancing

10. Fund rebalancing is the mechanism by which the Pension Fund would ensure that the asset allocation to fund managers is maintained at the target levels previously agreed by the Pension Fund Committee and as set out in the Investment Strategy Statement. It is also the means by which cash is moved to or from managers as a consequence of the cash flow forecasts.

11. Due to the current suspension of fund rebalancing, there was no rebalancing exercise this quarter.

Contact: Beverley White Tel: 03000 261900

Actual Cash Flow – For the period 1 April 2020 to 31 March 2021

Quarter Ended	30.06.20		30.09.20		31.12.20		31.03.21	
	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
	£	£	£	£	£	£	£	£
Cash Inflows								
Contributions - DCC	46,070,000	45,283,011	16,900,000	15,889,112	16,500,000	16,975,404	16,500,000	16,373,095
Contributions - Other	10,480,000	11,331,498	10,480,000	11,981,629	11,600,000	12,574,269	11,600,000	13,840,399
Unfunded pensions recharges	1,080,000	1,020,500	1,050,000	720,935	1,050,000	1,105,483	1,050,000	997,505
Transfer Values	1,250,000	1,276,938	1,250,000	1,012,935	1,250,000	699,626	1,250,000	1,295,926
Other income	2,000,000	1,002,018	2,000,000	1,041,720	1,500,000	1,094,288	1,500,000	2,136,926
Funds recovered from Managers	0	0	0	0	0	0	20,000,000	20,000,000
Interest on short term investments	75,000	70,000	80,000	11,744	2,000	2,605	2,000	852
Total Cash Inflow	60,955,000	59,983,965	31,760,000	30,658,075	31,902,000	32,451,677	51,902,000	54,644,703
Cash Outflows								
Payroll Paysheets	27,820,000	27,259,803	28,070,000	27,582,685	27,750,000	27,608,520	28,000,000	27,749,126
Payables Paysheets (incl. Managers' fees)	12,000,000	14,118,012	12,000,000	9,197,600	11,000,000	9,263,003	11,000,000	9,155,996
Funds transferred to Managers	0	4,164,024	0	3,046,947	3,000,000	3,343,661	3,000,000	4,971,934
Other Expenditure	1,000	1,169	1,000	1,361	1,000	1,013	1,000	914
Total Cash Outflows	39,821,000	45,543,008	40,071,000	39,828,593	41,751,000	40,216,198	42,001,000	41,877,970
Net Cash Inflow / (-) Outflow	21,134,000	14,440,957	-8,311,000	-9,170,518	-9,849,000	-7,764,521	9,901,000	12,766,733
Balance at Bank (opening)		32,792,549		47,222,886		38,050,655		30,290,299
Balance at Bank (closing)		47,222,886		38,050,655		30,290,299		43,058,895

Pension Fund Committee

26 July 2021



Performance Measurement of Pension Fund Investments to 31 March 2021

Report of Paul Darby, Corporate Director of Resources (Interim)

Purpose of the Report

- 1 To provide an overview of the investment performance of the Pension Fund to 31 March 2021.

Recommendation

- 2 Members to note the information contained within the attached report produced by Northern Trust, the Fund's custodian.

Background

- 3 The performance of the five fund managers is measured against personalised benchmarks chosen at the inception of the fund. The attached report from Northern Trust shows:
 - (a) The fund managers' benchmarks;
 - (b) The total fund performance for the quarter to 31 March 2021, plus the last 1, 3, 5 and 10 years and since inception;
 - (c) Individual fund managers' performance in absolute and relative terms against the relevant benchmarks, for the quarter to 31 March 2021, plus the last 1, 3, 5 and 10 years and since inception.

Contact:	Beverley White	Tel: 03000 261900
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NORTHERN
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Durham CC Pension Fund

Investment Risk & Analytical Services

March 31, 2021

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SECTION 1

Durham CC Pension Fund

Investment Risk & Analytical Services

March 31, 2021

Investment Hierarchy (Arithmetic Excess)

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return							
			One Month	Three Months	One Year	Three Years	Five Years	Ten Years	Inception to Date	Inception Date
Durham CC Pension Fund	3,433,484,728	100.00	2.19	1.64	25.58	8.63	9.14	7.64	7.30	29/02/2008
<i>Durc Total Plan Benchmark</i>			2.19	0.90	20.01	8.93	10.19	8.85	8.64	29/02/2008
<i>Excess Return</i>			0.00	0.74	5.57	-0.31	-1.05	-1.21	-1.35	29/02/2008
Alliance Bernstein	577,005,001	16.81	0.09	-1.27	7.38	1.98	2.46	2.92	3.37	29/02/2008
Alliance Bernstein	577,005,001	16.81	0.09	-1.27	7.38	1.98	2.46	2.92	3.37	29/02/2008
<i>3 Month Libor in GBP +3% pa</i>			0.25	0.75	3.36	3.68	3.56	3.62	3.99	29/02/2008
<i>Excess Return</i>			-0.17	-2.02	4.02	-1.70	-1.11	-0.70	-0.62	29/02/2008
BlackRock DAA	420,362,902	12.24	0.55	0.73	19.95	6.46	5.77	-	4.42	31/12/2014
Blackrock DAA	420,362,902	12.24	0.55	0.73	19.95	6.46	5.77	-	4.42	31/12/2014
<i>3 Month Libor in GBP +3%</i>			0.25	0.75	3.36	3.68	3.56	-	3.75	31/12/2014
<i>Excess Return</i>			0.30	-0.02	16.59	2.78	2.21	-	0.68	31/12/2014
CBRE 1	200,854,486	5.85	0.36	2.40	4.70	5.65	5.96	7.69	4.25	29/02/2008
CBRE 1	200,854,486	5.85	0.36	2.40	4.70	5.65	5.96	7.69	4.25	29/02/2008
<i>RPI +5%</i>			0.71	1.74	6.47	7.26	7.71	7.58	7.75	29/02/2008
<i>Excess Return</i>			-0.34	0.66	-1.76	-1.60	-1.75	0.11	-3.50	29/02/2008
CBRE 2	42,390,199	1.23	4.32	5.89	26.36	7.84	5.64	6.61	5.82	29/02/2008
CBRE 2	42,390,199	1.23	4.32	5.89	26.36	7.84	5.64	6.61	5.82	29/02/2008
<i>RPI +5%</i>			0.71	1.74	6.47	7.26	7.71	7.58	7.75	29/02/2008
<i>Excess Return</i>			3.62	4.15	19.90	0.58	-2.07	-0.97	-1.92	29/02/2008
Mondrian	261,355,253	7.61	0.18	4.09	40.63	8.26	11.20	-	7.00	31/10/2014
Mondrian	261,355,253	7.61	0.18	4.09	40.63	8.26	11.20	-	7.00	31/10/2014
<i>MSCI Emerging Markets GD +2.5%</i>			0.03	2.02	45.73	10.01	16.13	-	12.06	31/10/2014
<i>Excess Return</i>			0.14	2.07	-5.11	-1.74	-4.93	-	-5.06	31/10/2014
BCPP	1,909,276,168	55.61	3.81	2.39	41.68	-	-	-	10.80	30/09/2019
BCPP Global Equity Alpha Fund	1,450,550,499	42.25	4.24	6.31	49.25	-	-	-	15.42	24/10/2019
<i>MSCI ACWI ND + 2% pa</i>			4.19	4.10	41.31	-	-	-	16.37	24/10/2019
<i>Excess Return</i>			0.05	2.21	7.94	-	-	-	-0.96	24/10/2019
BCPP Sterling Index Linked Bd	458,725,669	13.36	2.48	-8.31	-	-	-	-	-4.00	08/10/2020
<i>FTSE Index Linked 15+Yrs+0.02%</i>			2.42	-8.51	-	-	-	-	-4.34	08/10/2020
<i>Excess Return</i>			0.06	0.20	-	-	-	-	0.34	08/10/2020
BCPP Private Market	22,240,719	0.65	-8.97	-8.98	-	-	-	-	-8.98	30/11/2020
BCPP Private Markets	22,240,719	0.65	-8.97	-8.98	-	-	-	-	-8.98	30/11/2020

Market Value Summary - One Month

Account/Group	28/02/2021 Market Value	Net Contribution*	Income	Fees	Appreciation	31/03/2021 Market Value
Durham CC Pension Fund	3,377,344,351	-17,620,404	1,077,165	0	72,683,614	3,433,484,728
Alliance Bernstein	576,508,866	0	0	0	496,135	577,005,001
Alliance Bernstein	576,508,866	0	0	0	496,135	577,005,001
BlackRock DAA	438,054,222	-20,000,000	545,963	0	1,762,718	420,362,902
Blackrock DAA	438,054,222	-20,000,000	545,963	0	1,762,718	420,362,902
CBRE 1	200,127,383	0	147,235	0	579,868	200,854,486
CBRE 1	200,127,383	0	147,235	0	579,868	200,854,486
CBRE 2	40,633,170	0	171,118	0	1,585,910	42,390,199
CBRE 2	40,633,170	0	171,118	0	1,585,910	42,390,199
Mondrian	260,898,362	0	169,021	0	287,870	261,355,253
Mondrian	260,898,362	0	169,021	0	287,870	261,355,253
BCPP	1,839,194,007	0	0	0	70,082,161	1,909,276,168
BCPP Global Equity Alpha Fund	1,391,555,363	0	0	0	58,995,136	1,450,550,499
BCPP Sterling Index Linked Bd	447,638,644	0	0	0	11,087,025	458,725,669
BCPP Private Market	21,928,341	2,379,596	43,829	0	-2,111,048	22,240,719
BCPP Private Markets	21,928,341	2,379,596	43,829	0	-2,111,048	22,240,719

*Net Contributions include Cash Contributions/Distributions, Security Deliveries/Receipts, Fees/Fee Rebates, Inter Account transfers for Consolidations & Benefits Payments.
Copied History or Backloaded Data may not display the correct Contributions/Withdrawals creating misrepresentation.

SECTION 2

Appendix

Investment Risk & Analytical Services

March 31, 2021

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Pension Fund Committee

24 June 2021

**Internal Audit Progress Report to 31
March 2021**



**Report of Stephen Carter, Chief Internal Auditor and Corporate
Fraud Manager**

Electoral division(s) affected:

Countywide.

Purpose of the Report

- 1 To inform Members of the work that has been carried out by Internal Audit during the period 1 April 2020 to 31 March 2021 as part of the 2020/2021 Internal Audit Plan.

Executive Summary

- 2 The report provides Members with the progress that has been made in achieving the Pension Fund Internal Audit Plan for 2020/2021 up to 31 March 2021 and aims to:
 - (a) Provide a high level of assurance, or otherwise, on internal control systems operated in the areas that have been subject to audit;
 - (b) Advise on any significant issues where controls need to improve in order to effectively manage risks;
 - (c) Advising of any other types of audit work carried out, such as consultancy reviews where an assurance opinion on the control environment may not be applicable;
 - (d) Advise of any unplanned work carried out or due to be carried out and any changes to the audit process.

Recommendation

- 3 Members are asked to note the work undertaken by Internal Audit during the period ending 31 March 2021.

Background

- 4 As an independent consultancy service, the Internal Audit Team strives to continue to add value and improve the organisation's operations as well as providing objective assurance to service managers and the Pension Fund Committee.
- 5 The Annual Internal Audit Plan, covering the period 01 April 2020 to 31 March 2021, was approved by the Pension Fund Committee on 12 March 2020.

Progress against 2020/21 planned work:

- 6 A summary of the approved audit plan, with the status of each audit, is shown below:

Audit Title	Audit Type	Status	Opinion
Audits brought forward from 2019/20			
Governance Arrangements	Assurance	Final Report	Substantial
Contributions	Assurance	Final Report	Substantial
Benefits	Assurance	Final Report	Substantial
2020/21 audits			
Compliance with Breach Policy	Assurance	Defer to 2021/22	
Pensions Payroll	Assurance	Final Report	Substantial
Additional Voluntary Contributions	Assurance	In Progress	
Bank Reconciliation	Assurance	Final Report	Substantial
Debt Recovery	Assurance	Defer to 2021/22	
Admission Bodies / Funding Risks	Assurance	Preparation	
National Fraud Initiative – Data matching to identify potential error/fraud	Counter Fraud	Complete for 2020/21	
Management time and ad hoc advice & guidance	Advice/Consultancy	Complete for 2020/21	

- 7 The status shows that, of the nine assurance reviews planned to be completed, five final reports have been issued, two of which were during the period, with their scopes shown below. A further four reviews have either been brought forward or deferred into 2021/22.

Audit Area	Brief Scope	Assurance Opinion
Governance Arrangements	Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none"> - Governance failures lead to a financial underperformance or poor publicity; - Pension Fund Board is not carried out in accordance with legislation; - Inappropriate investment of funds. 	Substantial
Contributions	Assurance review of the arrangements in place to mitigate against the risk of inaccurate contributions being paid into the pension fund.	Substantial

Background papers

- Specific Internal Audit reports issued and working papers.

Other useful documents

- None

Contact: Paul Monaghan

Tel: 03000 269662

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Pension Fund Committee

26 July 2021

Regulatory and Administration Update



Report of Paul Darby, Corporate Director of Resources (Interim)

Purpose of the Report

- 1 This report briefs the Committee on developments in matters that are both Local Government Pension Scheme (LGPS) specific, as well as providing an update on non-LGPS specific matters which are of interest.

Executive summary

- 2 There are a number of developments that will potentially impact the requirements placed upon the Fund, both specific to the LGPS and more generally. This report seeks to keep the Committee updated with those developments

Recommendation(s)

- 3 Committee is asked to note the report.

Background

- 4 This report provides an update to Committee on important pensions administration and governance matters that are currently relevant. The report is split into 2 main sections:
 - (a) LGPS specific matters, and;
 - (b) Non-LGPS specific matters that are of interest to the Committee.

LGPS Specific Matters

MHCLG Consultation – LGPS: Fair Deal – Strengthening Pension Protection

- 5 In January 2019, MHCLG launched a consultation that would strengthen the pensions protections that apply when an employee of an LGPS employer is compulsorily transferred to the employment of a service provider. If the proposed amendments are introduced, the option for staff to be granted access to a Government Actuary's Department (GAD) certified broadly comparable scheme will be removed.
- 6 MHCLG are currently considering the responses received, with a consultation response expected in due course. Officers will continue to monitor the position.

MHCLG consultation – LGPS: Changes to the Local Valuation Cycle and the Management of Employer Risk

- 7 In May 2019 MHCLG consulted on a number of changes to the LGPS, encompassing the following areas:
 - amendments to the local fund valuations from the current 3-year (triennial) to a 4-year (quadrennial) cycle
 - a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle
 - proposals for flexibility on exit payments
 - proposals for further policy changes to exit credits
 - proposals for changes to the employers required to offer local government pension scheme membership
- 8 On 27 February MHCLG published a partial response to the consultation, covering proposals on exit credits only. MHCLG

confirmed their intention to amend the Regulations providing greater discretion to Administering Authorities over the amount of any exit credit. The Local Government Pension Scheme (Amendment) Regulations 2020 were subsequently laid before parliament, coming into force on 20 March 2020 with backdated effect to 18 May 2018. The Fund has published its policy in relation to Exit Credits, which will be reviewed in light of a recent High Court judgement that provided further direction to LGPS Funds.

- 9 MHCLG has also published a partial response in respect of employer contributions and flexibility on exit payments. Officers will work with the Fund's Actuary to update the Funding Strategy Statement after appropriate consultation with Scheme Employers. Committee will continue to be updated on the consultation.

Ongoing Consultation – Guaranteed Minimum Pensions (GMP)

- 10 In February 2017 the Treasury consulted on options for how the Guaranteed Minimum Pension (GMP) element of pensions paid to those members who will reach state pension age on or after 6th December 2018 should be indexed.
- 11 In January 2018 the Treasury published its response to this consultation, acknowledging that it is a complex area with more time required to identify a long-term solution. As a result, the existing interim solution was extended, covering those members of public service schemes reaching state pension age between 6th April 2016 and 5th December 2018 to those that reach state pension age on or before 5th April 2021.
- 12 On 23 March 2021 Her Majesty's Treasury (HMT) discounted conversion (of GMP into main scheme benefits) as their long-term policy solution and instead will make full GMP indexation the permanent solution for public service pension schemes. Currently members covered by the interim solution have their GMP pensions fully uprated by their scheme in line with CPI. The new policy will extend this to members whose State Pension Age (SPA) is on or after 6 April 2021.
- 13 The Fund's Actuary will provide further detail to the Committee and Scheme Employers at the Fund's Annual Meeting in November. In particular, the Actuary will outline the Funding implications of HMT's decision.

LGPS Scheme Advisory Board (SAB)

SAB Review – Academies

- 14 In 2017 SAB instigated a review of the participation of existing academies and commissioned Price Waterhouse Coopers to investigate issues of academy participation in the LGPS and prepare a report for the Board. The report made no recommendations but set out three broad types of approach or mechanisms to try and resolve these issues. These are:
- non-regulatory measures within the LGPS
 - regulatory measures within the scheme, and
 - measures outside of the LGPS, including through primary legislation.
- 15 The SAB review had been split between a funding working group and an administration working group. Work on the administration working group was put on hold due to competing work pressures and the project is no longer part of SAB's current projects. Officers will continue to monitor the position and update Committee if work on the project is revived.

SAB Review – Tier 3 Employers

- 16 In addition to the review of Academy participation, above, SAB also commissioned work in respect of 'Tier 3' employers participating in the LGPS. Broadly, Tier 3 employers are those employers which:
- (i) have no tax raising powers,
 - (ii) are not backed by an employer with tax raising powers;
 - (iii) are not an academy.
- 17 SAB had established a small working group to review concerns expressed by Tier 3 employers and the ways in which they may be resolved. The working group had been tasked with reporting back to the SAB with a set of recommendations for further consideration.
- 18 The project is no longer part of SAB's current projects. Officers will continue to monitor the position and update Committee if work on the project is revived.

SAB Review – Good Governance in the LGPS

- 19 SAB is currently examining the effectiveness of current LGPS governance models with a focus on standards, consistency, representation, conflict management, clarity of roles and cost. The

Board will consider a detailed paper in May 2020 which will likely result in new statutory guidance on Governance Compliance, with consideration in particular likely to be given to:

- (a) changes to the scheme's regulatory provisions on Governance Compliance Statements,
 - (b) revised statutory guidance on Governance Compliance Statements,
 - (c) independent assessment of Governance Compliance Statements, and;
 - (d) establishing a set of Key Performance Indicators (KPIs)
- 20 SAB have recently completed their report on Good Governance and submitted an Action Plan to MHCLG to take the recommendations of the project forward. A more detailed update to Committee, and overview of the recommendations proposed to MHCLG will be provided in due course.

SAB Review – Responsible Investment Guidance

- 21 In November 2019, SAB drafted guidance for Responsible Investment in the LGPS, to clarify the parameters within which investment decisions can be made with regard to the integration of ESG factors. Following feedback, SAB has decided to take stock until more is known about the government's position on the proposed climate change provisions in the Pension Schemes Bill and the implications of the Supreme Court's judgement involving the Palestine Solidarity Campaign. Committee will be updated as the matter progresses.
- 22 Notwithstanding this decision, SAB have progressed with further work in respect of Responsible Investment (RI), including the production of an RI A-Z Guide. It is intended that the A-Z Guide will provide LGPS stakeholders a "one stop shop for information, links and case studies in this fast growing and complex arena". The guide will evolve over time, as new entries are added. The A-Z Guide can be found online at the following link <https://ri.lgpsboard.org/items>.
- 23 The Board has also established an RI Advisory Group (RIAG). The main role of the group will be to advise SAB on all matters relating to RI. It will also be responsible for assisting the Board in maintaining the online A-Z Guide. The Group will also assist SAB in developing recommendations to MHCLG on how TCFD reporting should be applied to the LGPS.

Cost Control Mechanism/McCloud

- 24 The Committee has been informed previously of the Cost Control Mechanism in the LGPS and other public sector schemes which sets both a cost 'ceiling' and 'floor' in respect of the ongoing affordability of public sector pensions. This creates a "cost corridor" designed to keep schemes within 2% of target costs.
- 25 Members were informed previously that it had not been possible to assess the value of the public service pensions arrangements with any certainty due to the anticipated implications of the Court of Appeal judgements in McCloud and Sargeant.
- 26 The Fund's position on McCloud has been discussed previously, with the Actuary outlining in detail how the issue was to be reflected in the 2019. The approach taken added an additional 0.9% to the employer contribution rate for all employers at the 2019 valuation.
- 27 Before the impact of McCloud, provisional cost management assessments indicated floor breaches in most schemes, that may have resulted in an improvement to benefits or reduction in member contributions. At the request of HMT, GAD carried out a review of the Cost Control Mechanism across the public sector.
- 28 Following GAD's review, HMT are consulting on reforms to the cost control mechanism intended to "establish a fairer balance of risks between taxpayers and scheme members, and create a more stable mechanism". The proposed reforms would operate only in the reformed public sector schemes, would widen the existing cost corridor from 2% to 3%, and would introduce an "economic check" where there is a cost breach to ensure that broader economic conditions are considered.
- 29 Additionally, there are proposed changes to the discount rate used to determine contribution rates in the unfunded public sector schemes. This discount rate, however, is used in the production of actuarial factors in the LGPS. The Committee will continue to be updated on the position regards the Cost Control Mechanism in the LGPS.

Non- LGPS Specific Matters

Public Sector Exit Payments Caps

- 30 The Small Business, Enterprise and Employment Act 2015 introduced the concept of a 'public sector exit payments cap'. The legislation provides that exit payments to be paid to a person are not

to exceed £95,000. The 2015 Act provided the overarching principles of how the exit cap was to operate, but the detail was to be prescribed in regulations that were expected to soon follow.

- 31 After a period of delay the Treasury launched a new consultation on this matter in April 2019. Included in the consultation were draft regulations called 'The Restriction of Public Sector Exit Payment Regulations 2019' which provided detail on how the exit cap should operate from an employer's perspective.
- 32 Under the Regulations, the cap was to remain at £95,000 and include:
- redundancy payment(s);
 - any payment to offset an actuarial reduction to a pension arising by virtue of early retirement (known as 'strain on the fund' or 'early release' cost);
 - any payment made pursuant to an award of compensation under the ACAS arbitration scheme or a settlement or conciliation agreement;
 - any severance payment or ex gratia payment;
 - any payment in the form of shares or share options;
 - any payment on voluntary exit;
 - any payment in lieu of notice due under a contract of employment;
 - any payment made to extinguish any liability under a fixed term contract;
 - any other payment made, whether under a contract of employment or otherwise, in consequence of termination of employment or loss of office.
- 33 Most significantly for the LGPS, was the inclusion of the 'strain on the fund' costs are included towards the cap. These costs of allowing unreduced access to pension benefits for members over 55 can exceed £95,000 for scheme members with long periods of membership.
- 34 Separately to the Exit Payment Regulations, MHCLG consulted on further reforms to the LGPS Regulations that would accommodate the Exit Cap within the Scheme. As MHCLG's proposed changes were not implemented concurrently with the Exit Payment

Regulations, there was legal uncertainty for both LGPS Administering Authorities and participating employers due to the conflicting legislation.

- 35 On 12 February however the Exit Cap was unexpectedly disapplied, after the Treasury issued the 'Exit Payment Cap Directions 2021'. The Treasury will bring forward at pace revised proposals in respect of public sector exits. The Committee will be updated as further details emerge.

Mandatory TCFD Reporting

- 36 Using powers granted under the Pension Schemes Bill, the Department for Works and Pensions (DWP) has consulted on draft regulations requiring occupational pension schemes to meet climate governance requirements, publish a Taskforce on Climate-related Financial Disclosures (TCFD) report and include a link to the report in their annual report and accounts.
- 37 Whilst the regulations will not apply to the LGPS it is expected that MHCLG will bring forward similar proposals requiring TCFD disclosures in the LGPS. At the time of writing, consultation on such requirements in the LGPS is expected in September.
- 38 The Fund's pooling partner, Border to Coast Pensions Partnership (BCPP) are supporters of the Task Force on Climate-related Financial Disclosures (TCFD) and have just published their second TCFD report aligned with the recommendations. This covers the approach to climate change across the four thematic areas of Governance, Strategy, Risk Management, and Metrics and Targets. The report demonstrates the improvements and developments made across the four key areas. The report can be found online at the following link <https://www.bordertocoast.org.uk/sustainability/>.
- 39 BCPP will support Partner Funds ahead of any mandatory reporting requirements through the Officers Operation Group RI workshops, delivering training, and by providing reporting. BCPP have held discussions to understand all Partner Funds' requirements on carbon reporting on assets, including those that are currently not held in the pool.
- 40 A BCPP procurement for carbon data, including forward-looking metrics (scenario analysis), taking place this year will take into account the reporting requirements of Partner Funds for equity and fixed income portfolios. Obtaining carbon data for Private Markets is more challenging and BCPP are looking into solutions for these portfolios held in the pool.

- 41 An overview of TCFD was included in training for members of the Committee in December (materials included in Appendix 1). A more detailed report, and further training will be provided to the Committee as details of MHCLG's anticipated consultation on TCFD emerge.

UK Stewardship Code 2020

- 42 The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. The Fund has previously signed up the Code, and BCPP also publish a UK Stewardship Code compliance statement.
- 43 Due to the significant changes in the Investment Market since the introduction of the first Code, The UK Stewardship Code 2020 is now being introduced. This new Code expands on the previous requirements and comprises a set of 12 Principles which require reporting and disclosure on an 'apply and explain' basis.
- 44 The LGPS (Management and Investment of Funds) 2016 Regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship, day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed a Responsible Investment Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds.
- 45 Officers are currently working with peers at BCPP Partner Funds to consider the new Code and will work together, and in conjunction with BCPP, to ensure compliance. A more detailed report will be provided to the Committee in due course.

Consultation on Minimum Pension Age

- 46 A consultation entitled 'Increasing the normal minimum pension age: consultation on implementation' was launched on 11th February and runs until 22nd April 2021. The consultation proposes that, due to increases in longevity and changing expectations of how long individuals will remain in work and in retirement, the minimum pension age would increase from 55 to 57 in 2028. The minimum age a scheme member can currently retire voluntarily in the LGPS is 55.

TPR Code of Practice

- 47 The Pensions Regulator (TPR) has consulted on a single Code of Practice to cover all regulated schemes. Presently, the Regulator has a specific Code for Public Service Pensions. Whilst the new Code does not extend TPR's powers in the LGPS beyond its existing remit on governance and administration, there are some concerns over how the provisions of the Code fit with the LGPS. SAB have responded on behalf of the LGPS.

Boycotts, Divestment and Sanctions Bill

- 48 The government's legislative programme was laid out in May. The programme includes a Boycotts, Divestment and Sanctions Bill the purpose of which will be to stop public bodies from taking a different approach to UK Government sanctions and foreign relations and will cover purchasing, procurement and investment decisions. Members will be kept up to date, as the matter progresses.

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Task Force on Climate-related Financial Disclosures (“TCFD”)

Time to consider

Durham Pension Fund



November 2020

PRIVATE AND CONFIDENTIAL

Sandy Dickson

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We can't self-isolate from climate change

Mark Carney
UN Special Envoy for Climate Action and
Finance
May 2020

What are climate-related risks and opportunities?

An investment perspective



The Investor Zone

The Climate Zone



Risk Factors



Transition

SPENDING - TECHNOLOGY

POLICY



Physical Damages

AVAILABILITY OF NATURAL RESOURCES

IMPACT OF NATURAL CATASTROPHES

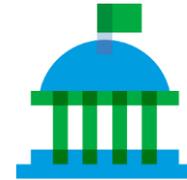
Opportunities from the low carbon transition

Sector performance divergence – energy and utilities most impacted

Physical risks increasingly dominate over longer term

Sudden asset re-pricing risk

Why consider climate risks and opportunities? A pension fund perspective



Aligns with Council's Climate
Emergency declaration

Regulatory climate disclosures proposed timelines

DWP consultation on TCFD

Value of fund assets at scheme year ending after...	First reporting period	First disclosure deadline (in Report and Accounts and on a public website)
1 June 2020 are \geq £5bn	Period from 1 October 2021 to scheme year end after that date	Earlier of: <ul style="list-style-type: none"> • 7 months after scheme year end post 1 October 2021 or by • 31 December 2022
1 June 2021 are \geq £1bn	Period from 1 October 2022 to scheme year end after that date	Earlier of: <ul style="list-style-type: none"> • 7 months after scheme year end post 1 October 2022 or by • 31 December 2023
All other schemes	No requirement at present but DWP will carry out a review in 2024 before determining how and when to extend rollout to smaller pension schemes	

- In our view, there is a strong likelihood that the broad pensions industry will support the adoption of TCFD for large occupational pension schemes
- MHCLG is expected to make provision for the LGPS broadly in line with these regulations. In our view, it would be surprising if similar regulations were not applied to the LGPS, given that TCFD is recognised as best practice

How to look at climate-related risks and opportunities

TCFD framework

The [Taskforce on Climate-related Financial Disclosures \(TCFD\)](#) recommends a framework for disclosing how climate-related risks and opportunities are measured, monitored and managed by companies, asset managers and asset owners.



The framework aims to:

- ✓ Improve climate-related data quality
- ✓ Increase focus on climate change
- ✓ Enable more informed decisions
- ✓ Provide a consistent framework for comparison

We recommend that the TCFD framework is used to understand, manage and monitor the Fund's exposure to climate risks and opportunities

TCFD Reporting

Enhancing the Fund's reputation

The Committee & Board is already doing a lot of what is involved with TCFD reporting

Governance

- Review your climate-related investment beliefs.
- Prioritise actions and understand the roles and responsibilities.

Strategy

- Consider climate change scenario analysis on investment and funding strategy.
- Understand the sponsor's exposure to climate risk and how they are adapting.

Risk Management

- Include climate risk in the scheme's risk register.
- Asset managers: how are they voting/engaging on climate change?
- Annual review of Mercer manager ESG ratings for your managers.
- Consider sustainable asset allocations.
- Consider low carbon or ESG indices.

Metrics and targets

- Carry out carbon foot-printing on equity and corporate bond portfolios.
- Consider non-emissions based metrics, such as green revenues.
- Consider setting target(s) to manage climate-related risks.

Formally adopting TCFD reporting could further enhance the Fund's governance and reputation

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