Nottinghamshire County Council

Nottinghamshire Pension Fund Committee

Thursday, 09 May 2019 at 10:30

County Hall, West Bridgford, Nottingham, NG2 7QP

AGENDA

1	Minutes of the last meeting 7 March 2019	5 - 8
2	Apologies for Absence	
3	Declarations of Interests by Members and Officers:- (see note below) (a) Disclosable Pecuniary Interests (b) Private Interests (pecuniary and non-pecuniary)	
4	Update on the Local Government Scheme Advisory Board	9 - 14
5	Proxy Voting	15 - 16
6	Local Authority Pension Fund Forum (LAPFF) Business Meeting	17 - 20
7	Local Authority Pension Fund Forum (LAPFF) Annual Conference	21 - 26
8	Revision of Fund Strategies	27 - 76
9	Work Programme	77 - 80
10	LGPS Central Ltd Presentation on Progress	81 - 82
11	Future of the Fixed Income Portfolio	83 - 86

12 EXCLUSION OF THE PUBLIC

The Committee will be invited to resolve:-

"That the public be excluded for the remainder of the meeting on the grounds that the discussions are likely to involve disclosure of exempt information described in Schedule 12A of the Local Government Act 1972 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information."

Note

If this is agreed, the public will have to leave the meeting during consideration of the following items.

EXEMPT INFORMATION ITEMS

13 Future of the Fixed Income Portfolio EXEMPT

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

14 LGPS Central Ltd - Presentation on Progress

Notes

(1) Councillors are advised to contact their Research Officer for details of any Group Meetings which are planned for this meeting.

(2) Members of the public wishing to inspect "Background Papers" referred to in the reports on the agenda or Schedule 12A of the Local Government Act should contact:-

Customer Services Centre 0300 500 80 80

(3) Persons making a declaration of interest should have regard to the Code of Conduct and the Council's Procedure Rules. Those declaring must indicate the nature of their interest and the reasons for the declaration.

Councillors or Officers requiring clarification on whether to make a declaration of interest are invited to contact Peter Barker (Tel. 0115 977 4416) or a colleague in Democratic Services prior to the meeting.

(4) Councillors are reminded that Committee and Sub-Committee papers, with the exception of those which contain Exempt or Confidential Information, may be recycled.

(5) This agenda and its associated reports are available to view online via an online calendar - http://www.nottinghamshire.gov.uk/dms/Meetings.aspx

Nottinghamshire County Council

minutes

Meeting NOTTINGHAMSHIRE PENSIONS FUND COMMITTEE

Date Thursday 7 March at 10.30am

membership
Persons absent are marked with `A'

COUNCILLORS

Eric Kerry (Chairman)
Stephen Garner (Vice Chairman)

Reg Adair	Francis Purdue-Horan
Chris Barnfather	Helen-Ann Smith - A
Sheila Place	Parry Tsimbiridis
Mike Pringle	

Nottingham City Council

A Councillor Graham Chapman
Councillor Anne Peach
A Councillor Sam Webster

Nottinghamshire Local Authorities' Association

A Councillor Richard Jackson – Broxtowe Borough Council
Kate Allsop – Executive Mayor Mansfield District Council

Trades Unions

Mr A Woodward
Mr C King

Scheduled Bodies

A Mrs Sue Reader

Pensioners

Vacancy
Mr T Needham

Independent Adviser

William Bourne

Officers in Attendance

Pete Barker	(Chief Executive's Department)
Jon Clewes	(Chief Executive's Department)
Tamsin Rabbitts	(Chief Executive's Department)
Sarah Stevenson	(Chief Executive's Department)

1. MINUTES

The minutes of the last meeting held on 10 January 2019, having been circulated to all Members, were taken as read and were confirmed and signed by the Chair.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Chapman, Councillor Smith, Councillor Webster and Mrs Reader.

3. DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None.

4. LGPS – GUARANTEED MINIMUM PENSION RECONCILIATION EXERCISE WITH HMRC – UPDATE REPORT

Mr Clewes introduced the report and on a motion by the Chairman, duly seconded it was:

RESOLVED 2019/007

1) That the continuation of the GMP Reconciliation Project and the allocation of the resources required to complete the calculation, communication and rectification phases of the reconciled HMRC data file be approved, to ensure the Fund is able to meet its statutory requirements.

2) That an update report on the rectification stage be brought to a future meeting of the Committee once an assessment of the HMRC data has been completed.

5. MHCLG CONSULTATION

Following Mrs Rabbitts' introduction of the report Mr Bourne suggested adding the following wording to the response:

Paragraph 1 or 2:

'We have concerns about the informal nature of this consultation, given that the guidance is to be statutory. The Government gave an undertaking to hold an open consultation on proposed statutory guidance where possible. We would prefer future consultations on statutory guidance, if not to be open, at least to be technical, and certainly not informal'.

Paragraphs 4.5 and 4.6:

'We can see the merit of increased transparency but believe each Pool should have the flexibility to choose whether or not LPBs are represented on their governance bodies. The remit of LPBs is to assist Pension Committees and members should not find themselves with any duties or accountability to Pools. We also do not understand how a single LPB representative on a Pool body would provide transparency to all Pool Members. We would prefer to see a duty of disclosure put on Pools to behave with complete transparency to all governance bodies of the Pool Members.'

On a motion, duly seconded it was:-

RESOLVED 2019/008

That on behalf of Nottinghamshire Pension Fund, the submission of the response, including the wording above, be approved.

6. CONFERENCES AND TRAINING

Mrs Rabbitts introduced the report and on a motion by the chairman, duly seconded it was:

RESOLVED: 2019/009

That attendance at conferences and training as set out in the report be approved.

7. WORK PROGRAMME

Mrs Rabbitts introduced the report and informed Committee of a proposed report for a future meeting.

On a motion by the Chairman, duly seconded it was:

RESOLVED: 2019/010

That a report titled 'Review of Fixed Income Mandate' be brought to a future meeting of the Committee.

8. FUND VALUATION AND PERFORMANCE

On a motion by the Chairman, duly seconded it was:

RESOLVED: 2019/011

That no further action is required as a direct result of the contents of the report.

9. EXCLUSION OF THE PUBLIC

RESOLVED: 2019/012

That the public be excluded for the remainder of the meeting on the grounds that the discussions are likely to involve disclosure of exempt information described in Schedule 12A of the Local Government Act 1972 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

And that Mr William Bourne, the Independent Adviser, be permitted to stay in the meeting during discussion of the exempt items.

EXEMPT INFORMATION ITEMS

10. FUND VALUATION AND PERFORMANCE

Mrs Rabbitts introduced the report and on a motion by the chairman, duly seconded it was:

RESOLVED 2019/013

That no further actions are required as a direct result of the contents of the report.

11. REPORT OF THE INDEPENDENT ADVISER

Mr Bourne gave an update on issues that affect the pensions investments of Nottinghamshire. On a motion by the chairman, duly seconded it was:

RESOLVED: 2019/014

That no further actions are required as a direct result of the contents of the report.

12. FUND MANAGERS' REPORTS

On a motion by the chairman, duly seconded it was:

RESOLVED: 2019/015

That no further actions are required as a direct result of the contents of the fund managers' reports received from Aberdeen Standard Investments, Kames Capital and Schroders Investment Management.

The meeting concluded at 1.11pm

CHAIRMAN

Nottinghamshire County Council

Report to Nottinghamshire Pension Committee

09 May 2019

Agenda Item: 4

REPORT OF THE SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE, AND EMPLOYEES

UPDATE ON THE LOCAL GOVERNMENT SCHEME ADVISORY BOARD

Purpose of the Report

1. The purpose of this report is to provide the Pension Committee with a high level summary of the current topics being considered by the National Local Government Scheme Advisory Board.

Information

2. The Local Government Scheme Advisory Board is a body set up under section 7 of the Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations (LGPS).

3. The purpose of the board is to be both reactive and proactive, and seeks to encourage best practice, increase transparency and co-ordinate technical and standards issues. It will consider items passed to it from the Ministry for Housing, Communities, & Local Government ("MHCLG"), the board's sub-committees and other stakeholders as well as items formulated within the board. Recommendations may be passed to the MHCLG or other bodies. It is also likely that it will have a liaison role with the Pensions Regulator. Guidance and standards may be formulated for local scheme managers and pension boards.

4. The board will from time to time be asked by the local government minister to develop options for scheme developments.

5. As well as responding to requests from government the board can also develop options and recommendations of its own in order to improve the efficiency and effectiveness of the scheme. This has included recommendations to clarify regulations and initiatives outside of the regulations such as investment cost transparency.

6. Finally the board can play a vital role in providing a route for ideas for development from the various stakeholders in the LGPS and a conduit for feedback from government to those ideas. In doing so it seeks to work closely with existing LGPS forums such as CIPFA Pensions Panel, the LGPS Technical Group and the Local Authority Pension Fund Forum.

Current Work Activities of the Scheme Advisory Board

7. The Scheme Advisory Board Website is: www.lgpsboard.org/

8. The following points summarise the meeting of the Scheme Advisory Board on 16 January 2019 and highlights the main topics being considered and the impact on Nottinghamshire Pension Fund :-

Cost Cap

What is the Cost Cap?

9. Government reforms to public service pensions were introduced from 2015. As part of the reforms, the government accepted the recommendation of Lord Hutton's Independent Public Service Pensions Commission that there be a ceiling (or Cap) on cost to the employer. The "employer cost cap" was introduced by the Public Service Pensions Act 2013. Its aim is to target and control future spending on public service pensions.

10. The employer cost cap is reviewed at each scheme valuation: every 4 years for the unfunded schemes; and every 3 years for the LGPS.

11. As a funded public service scheme, the LGPS in England and Wales is subject to a second cost control mechanism, managed by LGPS Scheme Advisory Board.

12. The idea of the costs control mechanism is to keep costs between the target floor and ceiling. If the ceiling or floor are breached, there is a consultation to allow the scheme manager, employers and members to agree the steps needed to bring costs back within target. These changes might include changes to future benefit accrual, or to employee contributions.

What the Board Have Done

13. The Board was advised that since it had last met on the 10 October, there have been ongoing discussions with MHCLG and other interested parties regarding the package of scheme improvements formulated by the technical group commissioned by the Board and subsequently agreed by the Board itself to bring the scheme's costs of 19.0% back to the target cost of 19.5% for the LGPS.

14. It was also confirmed that the Secretariat is working with scheme stakeholders to prepare a Q&A document to assist administering authorities in explaining the cost cap arrangement and its implications to scheme employers and others.

15. Board members expressed concern that in the absence of any agreement by government on the Board's agreed package that the deadline of 1 April 2019 for regulatory changes to be introduced was becoming increasingly challenging. The representative from MHCLG confirmed that a consultation paper based on the Board's agreed package was close to being finalised and that the consultation would be ready to be launched once the green light has been given by the government. It was also confirmed that the normal 12 week consultation period could be shortened to help achieve the 1st April deadline for any changes to be introduced.

16. It was also confirmed that the HM Treasury cost cap arrangement would still need to be undertaken at a later stage and would take on board the changes introduced under the Board's own arrangement.

Academies and Third Tier Employer projects

17. In 2017 the SAB issued a tender for a third party to collate and report the issues surrounding Tier 3 employers' participation in the LGPS (but not make any recommendations). Tier 3 employers include charities, housing associations, universities and higher and further education colleges and typically have no guarantee or backing from Central Government or another LGPS employer. There are estimated to be around 1,750 Tier 3 employers in the English and Welsh LGPS, with a liability totalling around £27bn.

18. The commissioned report has now been published and covers the information gathered from a range of stakeholders: Tier 3 employers, their employees, administering authorities and the actuarial firms that advise LGPS funds. The main themes raised from each group included:

    <u>Tier 3 Employers</u>

    - A general lack of transparency
    - Insufficient consideration of affordability
    - A lack of consistency between funds (e.g. flexibilities offered on exit costs)
    - High costs and a lack of visibility of costs associated with transferred-in benefits on redundancy.

    <u>Members</u>

    - Communication quality is mixed and inconsistent across funds
    - Majority do not want to leave the LGPS to join an alternative pension arrangement but this is at odds with the direction of travel among Tier 3 employers
    - 55% of members would welcome more flexibility in relation to benefits offered by the LGPS

    <u>Administering Authorities</u>

    - Lack of flexibility in the exit process
    - Tier 3 employers lack of understanding of the costs, funding risks or exit costs which is exacerbated by low levels of engagement
    - Concern on the variation in funding treatment for Tier 3 employers across different funds

19. The next stage of the project will be taken on by a small, "balanced" working party made up of members from the SAB, which will consider how the issues raised could be addressed.

20. The Board was advised that the work of the academies administration working group and third tier employers' project working group had been put on hold due to competing priorities, in particular, work on the Board's cost cap arrangement. Work on both projects will now be resumed as a matter of urgency.

Good Governance in the LGPS project

21. The SAB Board was advised that on the 29 November 2018, a panel representing the Chair, Vice-Chair and practitioner representative had interviewed the three bidding teams and unanimously agreed that the project should be awarded to Hymans Robertson.

22. However, concerns were subsequently raised about how Hymans Robertson would manage the potential conflict of interest given their position as clients to a number of LGPS administering authorities and the potential for recommendations to lead to paid work advising

on TUPE transfers. At the Board's request, Hymans Robertson prepared a statement explaining how they would manage any such conflict which was subsequently accepted by the Chair and Vice Chair on the Board's behalf.

23. The Board also agreed that the project should be re-named from the previous 'Separation Project' as this name had given rise to unfounded fears that options around removing the scheme from Local Authority control were being considered. It was agreed that "Good Governance in the LGPS" better reflected the aims and ambitions of the project to enhance the delivery of the function within local authority structures.

24. The SAB has commissioned Hymans Robertson to facilitate a consultation on good governance structures for the LGPS. The purpose of the consultation is to consider how best to accommodate LGPS functions within the democratically accountable local authority framework in a way that ensures that conflicts of interest are addressed and managed appropriately and that the LGPS remain appropriately resourced to deliver its statutory functions. The Board have asked Hymans Robertson to help the SAB identify the real issues and potential options for change to the current arrangements which are proportionate, pragmatic and would improve LGPS governance in these areas.

25. Through the consultation process, SAB will be seeking the views of many stakeholders, representing all elements of the LGPS, as possible. Scheme stakeholders will be invited to complete a short online questionnaire which asks for examples of actual conflicts that can arise, along with views on the effectiveness of current LGPS governance arrangements and suggestions for improvement. Further stages of consultation will include interviews and workshops with key stakeholders. This will allow the SAB to consult on a series of options that reflect the reality of LGPS governance.

26. Hymans have issued a questionnaire across the LGPS funds and associates of the LGPS closing date the end of May.

MHCLG Draft Statutory Guidance on Pooling

27. The MHCLG representative confirmed to the Board that the consultation was not a public consultation and has been sent to interested parties (administering authorities, local boards, the SAB and pool companies) for informal comment. Closing date for comments is the 28 March. The Board agreed that member's comments should be sent to the Secretariat who would then draft a composite response to be considered and agreed by the Chair. This would not prevent individual organisations represented on the Board from responding directly to MHCLG provided that it was made clear that it does not represent the views of the Board. Administering authorities are welcome to share the draft guidance with advisors and incorporate their views within the authority's response.

    The Pension Fund previously reported a response on 07/03/2019.

IORP II Directive

28. The EU has recently approved a major revision of the EU legislation on workplace pension schemes called the Directive on Institutions for Occupational Retirement Provision. 'IORP II',

as it is known, was finalised in January 2017. The Directive focuses on the governance of pension schemes and on their communication with individual members.

29. 'IORP II', is not yet part of UK law, so we cannot say what the implications will be. The Board is currently in discussions with MHCLG on key elements of the Directive to avoid any potential legal challenge to the way it has been transposed by the UK government.

Local Pension Boards

30. The Board is currently considering a draft survey to be undertaken in the summer regarding the work of local pension boards.

2019/20 Budget and Work plan

31. The Board considered a paper, setting out an early indicative proposed budget and work plan for 2019/20. Although members were advised that no new major projects were envisaged and that the year should be regarded as a period of consolidation, it was suggested that some work on annual and lifetime tax allowances may be necessary. The Board agreed that the Secretariat should continue to firm up the 2019/20 budget and work plan with the view of this being submitted to MHCLG in February.

Other Options Considered

32. It was agreed that The Pension Committee be updated on Topics affecting the LGPS in Nottinghamshire.

Reasons for Recommendation

33. This report has been compiled to inform the Pension Committee of the activities of the LGPS Scheme Advisory Board and how they impact on the work of the Administration Authority in its governance of the Nottinghamshire Pension Fund. The implications of the work of the Scheme Advisory Board can then be considered and reflected in the work of the Pension Committee and the Pension Board in their work plans.

Statutory and Policy Implications

34. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Data Protection and Information Governance

35. There are none arising directly for the Nottinghamshire Fund as a result of the contents of the report as this is for Member information only.

Financial Implications

36. There are no direct financial implications of the issues outlined in the report.

RECOMMENDATION

It is recommended:

That the Pension Committee consider the activities of the Scheme Advisory Board and ensure that the Administering Authority implements the recommendations of the Board once they are formally communicated to Pension Funds.

Marjorie Toward
Service Director – Customers and HR

For any enquiries about this report please contact:

Jonathan Clewes, Pension Manager on 01159773434 or Jon.Clewes@nottscc.gov.uk

Constitutional Comments (KK 26.04.2019)

37. The proposal in the report is within the remit of the Nottinghamshire Pension Committee.

Financial Comments (KP 26.04.2019)

38. There are no direct financial implications contained within the report.

Background Papers and Published Documents

None

Electoral Division(s) and Member(s) Affected

All

Nottinghamshire County Council

Report to Pension Fund Committee

9 May 2019

Agenda Item: 5

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

PROXY VOTING

Purpose of the Report

1. The Fund is committed to supporting best practice in corporate governance and has adopted the *UK Stewardship Code* as recommended by the CIPFA *Principles for investment decision making and disclosure*. This report is to inform members of the voting of equity holdings in the fourth quarter of 2018 (calendar year) as part of this ongoing commitment.

Information

2. The *UK Stewardship Code*, issued in September 2012 by the Financial Reporting Council, highlights the responsibilities that institutional investors have with regard to the 'long-term success of companies in such a way that the ultimate providers of capital [in this case, the Nottinghamshire Pension Fund] also prosper'. These responsibilities include, among other things, having a clear policy on voting and on the disclosure of voting activity. The *Code* states that investors "should not automatically support the board".

3. Alongside this the CIPFA *Principles for investment decision making and disclosure* require administering authorities to include a statement of their policy on responsible investment in the Statement of Investment Principles and report periodically on the discharge of such responsibilities. The Fund's statement on responsible investment states that 'the Fund continues to exercise its ownership rights by adopting a policy of actively voting stock it holds'.

4. The Fund retains responsibility for voting directly held shares (rather than delegating to its investment managers) and votes the majority of its equity holdings in the UK, Europe, US and Japan. Voting is implemented by Pensions Investment Research Consultants (PIRC). PIRC issue Shareholder Voting Guidelines each year and these are the basis of the voting implemented on behalf of the Fund.

5. As part of its pooling commitment, in 2018 the Fund transferred its in-house portfolio into a passive equities fund managed by Legal & General (LGIM). Consequently the Fund's passive equities allocation will be voted according to the LGIM policy, which is similar to PIRC's.

6. In a similar way, the Fund's investments in its pool, LGPS Central, will be covered by the pool's voting policy.

7. An overview of the PIRC voting activity and analysis of the key issues during the quarters will be published on the Fund website:

   http://www.nottspf.org.uk/about-the-fund/investments

   and with the meeting papers on the Council Diary:

   http://www.nottinghamshire.gov.uk/dms/Meetings.aspx

Statutory and Policy Implications

8. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

That Pension Fund Committee members consider whether there are any actions they require in relation to the issues contained within the report.

Report Author:
Ciaran Guilfoyle
Investments Officer

For any enquiries about this report please contact: Ciaran Guilfoyle

Constitutional Comments (KK 01/04/2019)

9. This is an updating information report and Pension Committee is the correct body for considering that information and any further action which members may wish to take in light of that information.

Financial Comments (TMR 16/04/2019)

10. There are no direct financial implications arising from this report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- PIRC – Nottinghamshire CC Pension Fund, Proxy Voting Review, 1 October 2018 to 31 December 2018
- Financial Reporting Council, *The UK Stewardship Code*, September 2012

Nottinghamshire County Council

Report to Pension Fund Committee

9 May 2019

Agenda Item: 6

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

LOCAL AUTHORITY PENSION FUND FORUM BUSINESS MEETING

Purpose of the Report

1. To report on the Local Authority Pension Fund Forum (LAPFF) business meeting held in London on 30 January 2019.

Information and Advice

2. The Local Authority Pension Fund Forum was formed in 1990 to provide an opportunity for the UK's local authority pension funds to discuss investment and shareholder engagement issues. In 2018 membership was also extended to cover pension fund pools. LAPFF membership currently stands at 79 funds and 5 pools (shown at Appendix A) with combined assets of over £230 billion. It is consequently able to exert significant influence over companies in which funds are invested.

3. LAPFF exists 'to assist Administering Authorities discharge their statutory responsibilities and promote the long-term investment interests of UK local authority pension funds. In particular, it seeks to maximise their influence as investors to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they hold an interest, commensurate with statutory regulations'. It also:
   a. provides a forum for information exchange and discussion about investment issues.
   b. facilitates the commissioning of research and policy analysis of issues in a more effective manner than individual Forum members could achieve.
   c. provides a forum for consultation on shareholder initiatives.
   d. provides a forum to consider issues of common interest to all pension fund boards, committees and their supporting administrative staff, as well as to other interested parties from national, local and regional governments.

4. The business meeting was attended on behalf of Nottinghamshire Pension Fund by an officer representative.

5. The meeting noted the recent death of LAPFF Chair Ian Greenwood, who died in November after a short illness.

6. In its ongoing business the meeting was pleased to note that the independent ("Kingman") review of the Financial Reporting Council (FRC) had concluded that the FRC is not fit for

purpose, precisely in line with the criticisms developed by LAPFF over the past few years. LAPFF believes that the FRC needs to be replaced by a purely public-sector entity wholly answerable to government.

7. At the meeting an update on LAPFF's engagement work to December 2018 was provided. A copy of the latest engagement report is attached as background. For information, all LAPFF engagement reports can be found here: http://www.lapfforum.org/publications/qrtly-engagement-reports/

8. The meeting concluded with a presentation by Dr Barnali Choudhury from University College London School of Law on the Modern Slavery Act. She emphasized the need to include measures to address modern slavery in the company engagement process.

Statutory and Policy Implications

9. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

1. That Pension Fund Committee members consider whether there are any actions they require in relation to the issues contained within the report.

Report Author:
Ciaran Guilfoyle
Investments Officer

For any enquiries about this report please contact: Ciaran Guilfoyle

Constitutional Comments (KK 01/04/2019)

10. This is an updating information report and Pension Fund Committee is the correct body for considering that information and any further action which members may wish to take in light of that information.

Financial Comments (TMR 16/04/2019)

11. There are no direct financial implications arising from this report.

Background Papers

- LAPFF constitution
- LAPFF Quarterly Engagement Report October to December 2018

Membership of LAPFF as at October 2018

Funds

1) Avon Pension Fund
2) Barking and Dagenham LB
3) Barnet LB
4) Bedfordshire Pension Fund
5) Cambridgeshire Pension Fund
6) Camden LB
7) Cardiff and Vale of Glamorgan Pension Fund
8) Cheshire Pension Fund
9) City of London Corporation
10) Clwyd Pension Fund
11) Cornwall Pension Fund
12) Croydon LB
13) Cumbria Pension Scheme
14) Derbyshire CC
15) Devon CC
16) Dorset County Pension Fund
17) Dyfed Pension Fund
18) Ealing LB
19) East Riding of Yorkshire Council
20) East Sussex Pension Fund
21) Enfield LB
22) Falkirk Council
23) Gloucestershire Pension Fund
24) Greater Gwent Fund
25) Greater Manchester Pension Fund
26) Greenwich Pension Fund RB
27) Gwynedd Pension Fund
28) Hackney LB
29) Hammersmith & Fulham LB
30) Haringey LB
31) Harrow LB
32) Hertfordshire County Council Pension Fund
33) Hounslow LB
34) Islington LB
35) Lambeth LB
36) Lancashire County Pension Fund
37) Leicestershire CC
38) Lewisham LB
39) Lincolnshire CC
40) London Pension Fund Authority
41) Lothian Pension Fund
42) Merseyside Pension Fund
43) Merton LB
44) Newham LB
45) Norfolk Pension Fund
46) North East Scotland Pension Fund
47) North Yorkshire CC Pension Fund
48) Northamptonshire CC
49) Northern Ireland Local Government Officers Superannuation Committee

50) Northumberland Pension Fund
51) Nottinghamshire CC
52) Oxfordshire CC
53) Powys County Council Pension Fund
54) Redbridge LB
55) Rhondda Cynon Taf
56) Sheffield City Region Combined Authority
57) Shropshire County Council
58) Somerset CC
59) South Yorkshire Pensions Authority
60) Southwark LB
61) Staffordshire Pension Fund
62) Strathclyde Pension Fund
63) Suffolk County Council Pension Fund
64) Surrey CC
65) Sutton LB
66) Teesside Pension Fund
67) The City and County of Swansea Pension Fund
68) The Environment Agency Pension Fund
69) Tower Hamlets LB
70) Tyne and Wear Pension Fund
71) Waltham Forest LB
72) Wandsworth LB
73) Warwickshire Pension Fund
74) West Midlands ITA Pension Fund
75) West Midlands Pension Fund
76) West Yorkshire Pension Fund
77) Westminster City Council
78) Wiltshire CC
79) Worcestershire CC

Pools

1) Border to Coast Pension Partnership
2) LGPS Central
3) London CIV
4) Northern Pool
5) Wales Pension Partnership

Nottinghamshire County Council

Report to Pension Fund Committee

9 May 2019

Agenda Item: 7

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

LAPFF ANNUAL CONFERENCE 2018

Purpose of the Report

1. To report on the Local Authority Pension Fund (LAPFF) Conference 2018

Information & Advice

2. The 23rd LAPFF Conference entitled 'The Financial Aspects of Corporate Governance – Back to the future' was held between 5 and 7 December 2018 in Bournemouth. In accordance with prior approval and as part of the Fund's commitment to ensuring those charged with decision-making and financial management have effective knowledge and skills, the conference was attended by Councillor Eric Kerry and Nigel Stevenson (Service Director – Finance, Infrastructure & Improvement). Details of the main sessions are set out below.

Day one

3. The conference began with a minutes silence and delegates remembering Councillor Ian Greenwood OBE and Councillor Kieran Quinn. Councillor Greenwood, who died in November, became the Chairman of LAPFF upon the death of Councillor Quinn, who passed away in December 2017.

4. ***LAPFF Engagement updates including Ryanair, Tesla and National Express (Moderator: Cllr Barney Crockett, LAPFF Executive)***
   LAPFF executive members set out the number of engagement activities with Ryanair, Tesla, National Express, Sports Direct and Amazon. This included two cabin crew from Ryanair explaining the history to the industrial relationship breakdown which included the company trying to establish a new operating model for the cabin crew, whereby cabin crew are being asked to become self-employed,

5. ***Hired: six months undercover in low-wage Britain: James Bloodworth (Moderator: Cllr Ian Brookfield, LAPFF Executive)***
   James set out his experiences from working and living in the UK's low wage economy. His book set out his 6 months working in the Amazon warehouse in Rugeley, Admiral's call centre in Cwm (Blaenau Gwent, South Wales), the Care Sector in Blackpool and as an Uber cab-driver in London. He set out the hardship of working on zero hours contracts for companies with high disciplinary regimes and minimum wages.
6. Day one finished with Nigel Keogh from the Norfolk Pension Fund explaining the progress being made on updating the National LGPS Frameworks.

Day Two

7. ***Directors' remuneration: Deborah Hargreaves, Founder, High Pay Centre, author of 'Are Chief Executives overpaid' (Moderator: Cllr Doug McMurdo, LAPFF Executive)***
   Deborah set up the High Pay Centre in 2012 and she began her presentation by setting out a number of examples of company CEO's who had been paid substantial amounts, e.g. Bet365, Persimmon plc. Her belief as to this increase was due to:
   - The increasing globalisation had created larger companies
   - The need for companies to fish in an international talent pool
   - An increase in the use of performance related pay (PRP) incentives linked to share price

   It was the last point that was of particular concern for Deborah. The increased use of PRP acted as too much of an incentive for executives to drive short-term company planning including methods to increase share price such as company share buy-back, little capital investment and more riskier terms and conditions for employees and use of agency workers. Her desire then was to roll back on PRP and the need for more workforce say on executive remuneration as seen on Continental Europe. During questions Deborah did admit that although Europe executive pay was behind the UK it was rising faster and that the buy-back of shares was a sensible company approach to reducing debt rather than just used as a booster for executive pay.

8. ***The global financial crisis: ten years after: George Magnus, economist and author (Moderator: John Plender, Financial Times)***
   George explained that despite the fact that banks may be safer and regulatory bodies may be able to spot issues early he was not convinced systematic failure in the financial sector could be prevented. The balance sheets of some banks are too big, too big to fail. In addition, although UK GDP may be passing 2008 levels he is worried that underneath there are issues, e.g. low wages, low productivity and wage inequality. The main issue for Government is to decide what the right level of intervention is, e.g. should retail banking be split from investment banking. George also mentioned that Brexit was taking our attention from the fundamental issues in the financial sector. His concerns also spanned into China. China manages its finances differently to the West and a financial crisis in China might not be one we recognise but would have similar global effects.

9. ***Fair Value accounting?: Jonathan Ford, Financial Times journalist (Moderator: Cllr Eddie Pope, LAPFF Executive)***
   Jonathan's argument was about the history of accounting for complex financial transactions between companies. Fair value accounting has added to this complexity, such as the error by PWC in auditing Goldman Sachs (GS) and an insurance policy arrangement that existed between GS and AIG to offset the losses on bad loans. PWC audited both companies and allowed differing valuations which proved in the end to be based on;
   - lack of evidence,
   - widely over optimistic values, and
   - allowed managers to set these out as facts rather than estimates.

   Jonathan set out a number of other accounting estimates that appear in accounting standards that are open to interpretation, e.g. accounting for Goodwill (IFRS3), recognising revenue (IFRS9), Pension Liabilities (FRS102).
   Enforcement of accounting standards needs to improve. He hoped for widespread changes to the Financial Reporting Council through the Kingman Review (splitting the large accounting firms into consultancy and auditing businesses).

10. ***What's wrong with the Financial Conduct Authority?: Alan Miller, CIO and Founding Partner, SCM Direct (Moderator Cllr Alasdair Rankin, LAPFF Executive)***
Alan's view was of a poor record of the FCA, with;
- Lack of enforcement with a reduction in prosecutions
- Lack of understanding their own rules, demonstrated through failed prosecutions
- Failure to listen to industry concerns to make improvements
- Slowness in responding to issues
- Concentrating too much effort on issuing guidance and consultations

Alan thought it was time for the FCA to go back to the overarching principles rather than into the detailed rules and spending less time on consultations that inevitably watered down guidance. He wanted to see an increase in enforcement, an increase in fines and protecting clients over the interests of the financial industry.

11. ***Changing our ways: Julia King, Baroness Brown of Cambridge Chair of adaptation Committee on Climate Change (Moderator: Tom Harrington, LAPFF Executive)***
Julia began by retitling her presentation to 'Time for Change' and setting out a number of climate statistics as to why we need to change now, e.g. summers being 5.4% hotter by 2070, 2018 summer being the norm by 2050, London sea-level rising by 1.15m by 2100, 47% less rain in summer and 37% more in winter by 2070. The Committee's last report to Parliament in 2013 showed CO_2 emissions in Transport was increasing, and that from waste and the energy sector was decreasing, the latter due to the shift away from coal. She thought the explanation given by shareholders, in particular pension funds, to Friends of the Earth etc. on why they continue to hold shares in energy companies so as to influence behaviour was having limited value due to the length these are held. People needed to be convinced your influence was working.

12. ***The triumph of the accountants and how they broke capitalism: Richard Brooks, Private Eye journalist, author Bean Counter (Moderator: Cllr Rob Chapman, LAPFF Executive)***
Apart from a brief history of accounting, beginning with Luca Pacoli in 1494, Richards's contention is that the big four accountancy firms have moved away from auditing companies to earning from consultancy work. This is reflected in the various accounting scandals in recent years but these issues go much further back in history. Richard's solution to this structural issue was either to split these firms into its constituent parts or to create a state run institution to undertake the auditing of companies.

13. ***How companies are responding to the plastics crisis: Steven Butts, Head of Corporate Services, WM Morrison's plc (Moderator: Cllr Barney Crockett, LAPFF Executive)***
Steven gave an interesting presentation on the way Morrison's had approached the need to reduce and aim to remove non-recyclable plastics from its products.

14. ***The future of the FRC: Baroness Sharon Bowles (Moderator: Rodney Barton, LAPFF Executive)***
Baroness Bowles set out her response on the review currently being undertaken on the FRC (The Kingman Review). She set out a number of areas she saw as needing addressing, namely
- those responsible for setting accounting/auditing standards and of regulating auditing would be separated
- issues of conflicts of interest for FRC Board Members needed to be resolved

- setting up of one Ombudsman for dealing with complaints
- all company directors, not just directors of finance, should be held accountable and subject to prosecution
- removing the anti-competitive effects of International Financial Reporting Standards
- auditors in accountancy firms should have a separate link to a senior board member tasked with the auditing side of the business as an alternative to the breakup of the big four
- Limiting the number of audits that partners can undertake/supervise.

Day Three

15. ***Directors' remuneration at Diageo and developments since the Davies Report: Lord Mervyn Davies of Abersoch, CBE (Moderator: Racheal Brothwood, LAPFF Executive)***
Lord Davies provided his insights into the management of companies and financial institutions. There is a need to understand the private equity world more and more as investors. More transparency is needed on executive pay which has risen to one of the more contentious issues on company governance. He believed more dialogue is needed from investors to influence large companies and praised the work of LAPFF in being able to bring investors together to have more influence on corporate governance. His view continues to be that boardrooms are still too male dominated which requires a change of culture.

16. **Closing the gender pay gap: Ann Franke, Managers organisation (Moderator: Cllr Yvonne Johnson, LAPFF Executive)**
Building on Lord Davies' last point, Ann continued with the significant gender pay gap that requires a change in company's culture. She suggested a number of good practices that work to reduce this gap, namely:
    - Transparency, targets and quotas
    - Learning from best recruitment and promotion practices
    - Inclusive culture champions, including men fulfilling these roles
    - Flexible, agile and results-based working practices
    - Sponsorship and mentoring programmes

    Her evidence by having more women in company boardrooms can be demonstrated by companies that do so have better ethics and engagement, better decision making and attract and retains better talent.

17. ***Update on engagement with National Express: Ian Gold International Brotherhood of Teamsters, Director of Strategic Research and Campaigns Director (Moderator: Cllr Paul Doughty)***
A representative from the Teamsters (IBT) thanking LAPFF for their assistance in improving the governance and working conditions for drivers/employees of National Express Group in the USA over the last 4 years. As a consequence agreements have been reached with the US Company to allow employees to join a recognised union. Dialogue continues on improving standards and driver/passenger safety

18. ***The bank that lived a little: Barclays in the age of the very free market: Philip Augar (Moderator John Plendor, Financial Times)***
The conference concluded with a presentation by Philip Augar. He explained the history that surrounds Barclays and the missed opportunities as far back as 1998 when it could have demerged the retail business from the riskier investment banking opportunities. Since then the share price has fallen by a quarter; during the same time the FTSE has risen by a quarter.

That missed opportunity resulted in a strategy to build the bank through acquisitions. The failed acquisition of BMO was seen as a lucky miss, but the takeover of the remnants of Lehman's did prove costly. This resulted in the need to raise finance from Qatari investors and to sell some profitable business to avoid a government bailout. Apart from the fraud trial this demonstrates the complexity that now exists in banking and Philip's belief is that as a board member you have little hope of understanding this complexity and therefore fulfilling your role. As a result you can be over reliant on the management of the bank. One good change has seen the deferring of bonuses and the ability to clawback bonuses to reduce the risk of short-term risks being taken that have longer-term consequences.

Statutory and Policy Implications

19. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATIONS

1) That Pension Fund Committee members continue to attend appropriate conferences to enable members to be kept up to date with the main national topics relating to investments.

2) That Members consider if there are any actions they require in relation to the issues contained within the report

Nigel Stevenson
Service Director - Finance, Infrastructure & Improvement

For any enquiries about this report please contact: Nigel Stevenson

Constitutional Comments (SLB 10/04/2019)

20. Pension Fund Committee is the appropriate body to consider this report.

Financial Comments (NS 24/12/2018)

21. There are no financial implications arising from this report

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

None.

Nottinghamshire County Council

Report to Pension Fund Committee

9 May 2019

Agenda Item: 8

REPORT OF REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

REVISION OF FUND STRATEGIES

Purpose of the Report

1. To propose revised versions of the Funding Strategy Statement, Investment Strategy Statement, the Risk Management Strategy and Risk Register and Governance Compliance Statement.

Information

2. Under governing regulations, the Fund is required to 'prepare, maintain and publish' a number of strategy statements. These statements must then be kept under review and, if necessary, revised.

3. According to Regulation 58 of the Local Government Pension Scheme Regulations 2013, an administering authority must publish a Funding Strategy Statement (FSS). This was revised following the latest triennial actuarial valuation. This statement was based on a version prepared by the Fund Actuary. The Statement has been reviewed but has no amendments. The strategy is attached as Appendix A.

4. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "Investment Regulations") govern the management of the pension fund and the investment of fund money. According to Regulation 7 of the Investment Regulations an administering authority must formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State. It must publish a statement of its investment strategy and must review and if necessary revise its investment strategy at least every 3 years.

5. Some amendments to asset allocation were discussed at the November Working Party which were approved at the last committee meeting. A review has been done of the Strategy as a whole which has resulted in some amendments relating to pooling and to responsible investment. The updated Investment Strategy Statement is attached as Appendix B.

6. It is considered best practice for the Fund to have a Risk Management Strategy and Risk Register and to review these on a regular basis. The documents last went to Committee in July 2018 following a major review. Consequently only minor changes have been made at this review. The revised documents are attached as Appendices C i) and C ii).

7. The Local Government Pension Scheme (Administration) Regulations 2013 require publication of a governance compliance statement. This statement has been updated to reflect the change in the Service Director's job title. The revised Statement is attached as Appendix D.

Other Options Considered

8. It is a requirement that strategy statements are reviewed, so no other options were considered.

Reason/s for Recommendation/s

9. The revised policies reflect the current governance of the Pension Fund and agreed amendments.

Statutory and Policy Implications

10. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

1) That the revised Funding Strategy Statement, Investment Strategy Statement, Risk Management Strategy and Governance Compliance Statement be approved by the Nottinghamshire Pension Fund Committee.

Nigel Stevenson
Service Director for Finance, Infrastructure & Improvement

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments (LW 25/03/2019)

11. Nottinghamshire Pension Fund Committee is the appropriate body to consider the content of this report.

Financial Comments (TMR 21/03/2019)

12. There are no direct financial implications arising from this report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All

Nottinghamshire County Council

Nottinghamshire Pension Fund

April 2019

FUNDING STRATEGY STATEMENT

Introduction

1. This is the Funding Strategy Statement (FSS) for the Nottinghamshire County Council Pension Fund. It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 ("the Regulations") and describes Nottinghamshire County Council's strategy, in its capacity as Administering Authority, for the funding of the Nottinghamshire County Council Pension Fund ("the Fund").

2. This statement has regard to the guidance set out in the document "Preparing and Maintaining a Funding Strategy Statement" published by CIPFA in February 2016. The statement also has regard to the Investment Strategy Statement published by the Administering Authority in March 2017.

3. The Statement describes a single strategy for the Fund as a whole. The Fund Actuary, Barnett Waddingham LLP, has been consulted on the contents of this Statement.

Purpose of the Funding Strategy Statement

4. The purpose of this Funding Strategy Statement is to explain the funding objectives of the Fund and in particular:
- How the costs of the benefits provided under the Local Government Pension Scheme (the "Scheme") are met through the Fund
- The objectives in setting employer contribution rates
- The funding strategy that is adopted to meet these objectives.

Aims and Purpose of the Fund

5. The aims of the Fund are to:
- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- Achieve and maintain Fund solvency and long-term cost efficiency at reasonable cost to taxpayers, scheduled, resolution and admitted bodies, and enable contribution rates to be kept as nearly constant as possible where practical
- Seek returns on investment within reasonable risk parameters

6. The purpose of the Fund is to:
- Pay pensions, lump sums and other benefits provided under the Regulations
- Meet the costs associated in administering the Fund
- Receive contributions, transfer values and investment income.

Key Parties

7. The key parties involved in the funding process and their responsibilities are as follows.

The Administering Authority

8. The Administering Authority for the Pension Fund is Nottinghamshire County Council. The main responsibilities of the Administering Authority are to:

- Collect employee and employer contributions
- Invest the Fund's assets, while ensuring cash is available to meet liabilities as and when they fall due
- Pay the benefits due to Scheme members
- Take measures to safeguard the Fund against the consequences of employer default
- Manage the actuarial valuation process in conjunction with the Fund Actuary, and enable the Local Pensions Board to review the valuation process as they see fit
- Prepare and maintain this FSS and the Investment Strategy Statement (ISS) after consultation with other interested parties as appropriate
- Monitor all aspects of the Fund's performance and funding
- Effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and Scheme employer

Scheme Employers

9. In addition to the Administering Authority, a number of other Scheme Employers, including Admission Bodies, participate in the Fund. The responsibilities of each Scheme Employer that participates in the Fund, including the Administering Authority, are to:

- Collect employee contributions and pay these together with their own employer contributions certified by the Fund Actuary to the Administering Authority within the statutory timescales, including any exit payments on ceasing participation in the Fund
- Notify the Administering Authority of any new Scheme members and any other membership changes promptly
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures
- Notify the Administering Authority of significant changes in the employer's structure or membership.

Fund Actuary

10. The Fund Actuary for the Pension Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Advise interested parties on funding strategy and completion of actuarial valuations in accordance with the FSS and the Regulations, and in particular, set contribution rates in order to secure the Fund's solvency and long-term cost efficiency, having regard to the desirability of maintaining as nearly constant a primary contribution rate as possible.
- Advise on other actuarial matters affecting the financial position of the Fund, including bulk transfers, employer exit valuations, etc.

- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Fund.

Solvency Issues, Target Funding Levels and Long-term Cost Efficiency

Funding Objectives

11. The funding objectives are to:
    - Set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund as they fall due
    - Ensure the solvency and long-term cost efficiency of the Fund, while having regard to the desirability of maintaining as nearly constant employer contribution rates where practical
    - Set contributions to target a 100% funding level over an appropriate time period using appropriate actuarial assumptions

Funding Strategy

12. The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

13. The actuarial valuation involves a projection of future cash flows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.

14. The last actuarial valuation was carried out as at 31 March 2016 with the assets of the Fund found to be 87% of the accrued liabilities of the Fund.

Funding Method

15. The key objective in determining employer's contribution rates is to establish a funding target and then set levels of employer contribution to meet that target over an agreed period.

16. The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund. The funding target may, however, depend on certain employer circumstances and in particular, whether an employer is an "open" employer – one which allows new staff access to the Fund, or a "closed" employer which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the chosen funding target.

17. For open employers, the actuarial funding method that is adopted is known as the Projected Unit Funding Method which considers separately the benefits in respect of service completed before the valuation date ("past service") and benefits in respect of service expected to be completed after the valuation date ("future service"). This approach focuses on:

    - The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay for pensions in payment. A funding level in excess of 100 per cent indicates a surplus of assets over liabilities; while a funding level of less than 100 per cent indicates a deficit

- The future service funding rate which is the level of contributions required from the individual employers which, in combination with employee contributions, is expected to support the cost of benefits accruing in future.

18. The key feature of this method is that, in assessing the future service cost, the contribution rate represents the cost of one year's benefit accrual.

19. For closed employers, the funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over the remaining expected working lifetime of active members.

Valuation Assumptions and Funding Model

20. In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover.

21. The assumptions adopted at the valuation can therefore be considered as:

- The statistical assumptions which are essentially estimates of the likelihood of benefits and contributions being paid
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current or present value. The base market statistics used for the financial assumptions are smoothed around the valuation date so that the market conditions used are the average of the daily observations over the three months before and the three months after the valuation date.

22. A summary of the key assumptions is included in the following table and can be found in the actuarial valuation report as at 31 March 2016. Further details regarding the derivation of these assumptions can be found in the Fund Actuary's initial results and assumptions advice to the Fund dated 5 October 2016.

Assumption	**Derivation**	**Value at 31 March 2016**
Future Price Inflation (RPI)	Smoothed 20 year point on the Bank of England implied Retail Price Index inflation curve as at 31 March 2016	3.3% p.a.
Future Price Inflation (CPI)	RPI less 0.9% per annum to reflect the differences in the indices	2.4% p.a.

Salary increases	Assumed to be in line with CPI until 31 March 2020 and then CPI plus 1.5% p.a. thereafter	2.4% p.a. until 31 March 2020 then 3.9% p.a.
Discount rate	Based on the long-term investment strategy of the Fund, with deductions for expenses and prudence	5.4% p.a.
Post-retirement mortality	S2PA tables with a multiplier of 100% for males and 90% for females, projected into the future with the 2015 CMI Model with a long-term rate of improvement of 1.5% p.a.	n/a

Future Investment Returns/Discount Rate

23. To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values. The discount rate that is adopted will depend on the funding target adopted for each employer.

24. For open employers, the discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

25. For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected "termination date"), the employer becomes an exiting employer under Regulation 64. The Fund Actuary may incorporate such an adjustment after consultation with the Administering Authority.

26. The adjustment to the discount rate for closed employers is to set a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a "minimum risk" rather than on an ongoing basis. The aim is to minimise the risk of deficits arising after the termination date.

Asset Valuation

27. For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date.

Deficit Recovery/Surplus Amortisation Periods

28. Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different from the value of accrued liabilities, depending on how the actual experience of the Fund differs from the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit.

29. Where the actuarial valuation reveals a deficit in respect to a particular employer then the levels of required employer contributions will include an adjustment to fund the deficit over a specified period. Each employer's recovery period is considered individually, unless they are part of a pool (see Pooling of Individual Employers). Past service deficit contributions are generally paid as monetary amounts but may be paid as a percentage of payroll, subject to the Administering Authority agreeing this approach.

30. At the 2016 actuarial valuation, no employers' deficit recovery periods were greater than 20 years.

31. Where an employer's funding position has improved in the inter-valuation period, but the employer is still in deficit, the employer may be required to maintain the previous total contribution level so that the expected deficit recovery period reduces.

32. Incremental phasing-in (stepping) of contribution increases may be considered for some employer types where proposed increases are large, with target rates to be achieved in no later than 3 years. Where stepping is agreed to, employers are instructed that the difference between the employer contributions with stepping and the employer contributions without stepping will need to be repaid later in the recovery period.

33. Employers in surplus on their funding method will generally pay the future service rate although the surplus may be released back to the employer through an adjustment to their contribution rate. The Fund Actuary will consider each employer separately when deciding whether surplus amortisation is appropriate.

Pooling of Individual Employers

34. The general policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

35. However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

36. The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

37. Currently, other than Scheme employers that are already legally connected, there are the following pools:

- Small Scheduled Bodies pool
- Grouped Admission Bodies pool
- Fund Academies pool

Cessation Valuations

38. On the cessation of an employer's participation in the Scheme, the Fund Actuary will be asked to make a termination assessment, as required by the Regulations. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.

39. In assessing the financial position on termination, the Fund Actuary may adopt a discount rate based on gilt yields and adopt different assumptions from those used at the previous valuation in order to protect the other employers in the Fund from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

Links to Investment Policy

40. The investment strategy and the funding strategy are linked by the strategic asset allocation of the Fund, which has been set following advice from the Fund's investment adviser and with regard, amongst other considerations, the maturity profile of the Fund.

41. The actuarial valuation involves a projection of future cashflows from the Fund and these cashflows are discounted to the current time, using the discount rate, to obtain a single figure for the value of the past service liabilities. This figure is the amount of money, which if invested now, would be sufficient to make those payments in future provided that the assumptions made during the valuation were borne out in practice (in particular, if the future investment return was equal to the discount rate used).

42. The discount rate is based on the expected long-term future investment return, using the long-term strategic allocation set out in the Investment Strategy Statement, with a deduction for expenses and for prudence.

Risks and Counter Measures

43. Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

44. The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

Financial Risks

45. The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to

a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

46. The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.1% per annum in the real discount rate will decrease/increase the valuation of the liabilities by 2%, and decrease/increase the required employer contribution by around 1% of payroll.

47. However, the Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from officers and independent advisers on investment strategy.

48. The Committee may also seek advice from the Fund Actuary on valuation related matters. In addition, the Fund Actuary may provide funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

Demographic Risks

49. Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will reduce the funding level by approximately 1%.

50. The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

51. The liabilities of the Fund can also increase by more than has been planned as a result of early retirements. However, the Administering Authority monitors the incidence of early retirements and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

Regulatory Risks

52. The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central Government. Regulations also place certain limitations on how the assets can be invested. The tax status of the invested assets is also determined by the Government.

53. The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

54. However, the Administering Authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

Employer Risks

55. Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership
- An individual employer deciding to close the Scheme to new employees
- An employer ceasing to exist without having fully funded their pension liabilities.

56. The Administering Authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

57. In addition, the Administering Authority keeps in close touch with all individual employers participating in the Fund to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

Monitoring and Review

58. This FSS is reviewed formally, in consultation with the key parties as appropriate, at least every three years to tie in with the triennial actuarial valuation process.

59. The Administering Authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

Nottinghamshire County Council

Nottinghamshire Pension Fund

April 2019

INVESTMENT STRATEGY STATEMENT

Introduction

1. The County Council is an administering authority of the Local Government Pension Scheme (the "Scheme") as specified by the Local Government Pension Scheme Regulations 2013 ("the LGPS Regulations"). It is required by Regulation 53 of the LGPS Regulations to maintain a pension fund for the Scheme.

2. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "Investment Regulations") govern the management of the pension fund and the investment of fund money. According to Regulation 7 of the Investment Regulations an administering authority must formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State. It must publish a statement of its investment strategy and must review, and if necessary revise, its investment strategy at least every three years.

3. The investment strategy statement must include:
   a) A requirement to invest fund money in a wide variety of investments.
   b) The authority's assessment of the suitability of particular investments and types of investments.
   c) The authority's approach to risk, including the ways in which risks are to be assessed and managed.
   d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services.
   e) The authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.
   f) The authority's policy on the exercise of the rights (including voting rights) attaching to investments.

Purpose and Principles

4. The purpose of the Fund is to:
   - Pay pensions, lump sums and other benefits provided under the LGPS Regulations.
   - Meet the costs associated in administering the Fund.
   - Receive contributions, transfer values and investment income.
   - Invest any Fund money not needed immediately to make payments.

5. The following principles underpin the Fund's investment activity:
   - The Fund will aim to be sufficient to meet all its obligations on a continuing basis.
   - The Fund will be invested in a diversified range of assets.
   - Proper advice on diversification and the suitability of types of investment will be obtained and considered

- The Fund will aim to conduct its business and to use its influence in a long term responsible way.

Key Parties

6. The key parties involved in the Fund's investments and their responsibilities are as follows.

The Administering Authority

7. The Administering Authority for the Pension Fund is Nottinghamshire County Council. Under the terms of the Council's constitution, the functions of the Council as administering authority are delegated to the Nottinghamshire Pension Fund Committee. The full governance arrangements of the Fund are detailed in the Fund's Governance Compliance Statement.

8. The members of the Committee are not trustees (as the LGPS is a statutory scheme) but do have fiduciary duties towards the scheme members and employers.

LGPS Central

9. LGPS Central ("the Pool") is the asset pool which Nottinghamshire Pension Fund jointly owns with seven other LGPS funds in order to meet the government's criteria for investment reform issued in November 2015. The Pool has obtained FCA regulation and manages collective investment vehicles on behalf of the participating funds.

Committee Members

10. The Committee Members recognise their full responsibility for the oversight of the Fund, and operate to a Code of Conduct. They shall:
    - Determine the overall asset allocation and investment strategy of the Fund.
    - Determine the type of investment management to be used and, until funds are transferred to the Pool, appoint and dismiss fund managers.
    - Receive regular reports on performance from the main fund managers and question them regularly on their performance.
    - Receive independent reports on the performance of fund managers on a regular basis.
    - Be encouraged to receive suitable training to help them discharge their responsibilities and attend such training courses, conferences and meetings that deliver value for money to the Fund.

Chief Finance Officer

11. Under the Council's constitution, the Service Director (Finance, Infrastructure & Improvement) is designated the Council's Chief Finance Officer (also known as the Section 151 Officer). The Group Manager (Financial Services) is the deputy Section 151 Officer. Financial Regulations specify that the Section 151 Officer is responsible for arranging the investment of the Pension Fund. Operational matters falling under this responsibility are exercised by the Senior Accountant (Pensions & Treasury Management).

12. Authorised signatories for operational matters relating to pension fund investments are:
    - Service Director (Finance, Infrastructure & Improvement)
    - Group Manager (Financial Services)
    - Senior Accountant (Pensions & Treasury Management)
    - Investments Officer

13. Representatives of the Service Director (Finance, Infrastructure & Improvement) provide advice to Committee members and attend meetings of the Pension Fund Committee as required.

Independent Adviser

14. The Fund has an Independent Adviser who attends meetings of the Pension Fund Committee and Pensions Working Party as required. This is considered best practice in accordance with the requirements for "proper advice" in the governing regulations. The Independent Advisor is appointed by the Administrating Authority following appropriate consultation with the Committee.

15. The independent adviser is engaged to provide advice on:
    - The objectives and policies of the Fund.
    - Investment strategy and asset allocation.
    - The Fund's approach to responsible investment.
    - Choice of benchmarks.
    - Investment management methods and structures.
    - Choice of managers and external specialists.
    - Activity and performance of investment managers including the Pool and the Fund.
    - The risks involved with existing or proposed investments.
    - The Fund's current property portfolio and any proposals for purchases, sales, improvement or development.
    - New developments and opportunities in investment theory and practice.
    - Amendment and review of statutory policy documents.

Asset Allocation

16. It is widely recognised that asset allocation is the most important factor in driving long term investment returns. The balance between different asset classes depends largely on the expected risk/return profile for each asset class and the target return for the Fund. It is also recognised that investment returns play a significant role in defraying the cost of providing pensions by mitigating the contributions required from employers.

17. Employers contributions are determined as part of the regular actuarial valuation of the Fund. Historically these have taken place every three years and a valuation is taking place as at March 2019. Going forward, they are expected to take place every four years. The actuarial valuation involves a projection of future cash flows to and from the Fund. Its main purpose is to determine the level of employers' contributions that should ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. This is the main funding objective as set out in the Funding Strategy Statement.

18. The Fund Actuary estimates the future cash flows which will be paid from the Fund for the benefits relating to service up to the valuation date. They then discount these projected cash flows using the discount rate to get a single figure for the value of the past service liabilities. This figure is the amount of money which, if invested now, would be sufficient to make these payments in future provided that the future investment return was equal to at least the discount rate used.

19. The discount rate is based on the expected long term future investment returns from various asset classes. These are likely to be adjusted following the March 2019 valuation, but are currently as follows:

Asset class	**Expected return (p.a.)**
Equities	7.4%
Gilts	2.4%
Other bonds	3.3%
Property	5.9%
Cash	1.8%
Discount rate	**5.4%**
Fund Target Return	**6.0%**

20. At the March 2016 valuation, the Fund was assessed to have a deficit of £621m and a funding level of 87%. Deficit recovery contributions have been certified for the majority of employers but any returns in excess of the discount rate will help to recover the Fund to a fully funded position. The Fund therefore sets its asset allocation to target an annual return rate of 6%. These figures and the asset allocation may need to be reviewed when the results of the March 2019 valuation are known.

21. The agreed asset allocation ranges for the Fund are shown below, along with the Fund's long term strategic target allocations.

Asset class	**Allocation ranges**	**Strategic benchmark**	
Equities	55% to 75%	FTSE All Share World	68%
Property	5% to 25%	IPD annual	15%
Bonds	10% to 25%	FTSE UK All Stock	15%
Cash	0% to 10%	LIBID 7 Day	2%

22. This asset allocation is aimed at achieving appropriate returns to meet the Fund Target Return within acceptable risk parameters. The Fund's actual allocation may vary from this according to market circumstances, relative performance and cash flow requirements. The ranges will be kept under regular review and, if it appears likely that these limits might be breached because of market movements, reference will be made to a meeting of the Pensions Working Party for advice.

23. The asset allocation currently favours "growth" assets, primarily equities, as they are expected to deliver higher returns to help the Fund achieve the Fund Target Return. Net additions from members (contributions received less benefits paid) are now expected to be negative for the foreseeable future, so the Fund also invests in "income" assets which will deliver secure and predictable income over the long term. These may include infrastructure, property and fixed income. Inflation is a long-term risk factor and the Fund explicitly seeks investments in this category which will help to mitigate that. Finally, the Fund allocates to liquid assets such as cash and short-term bonds in order to ensure cash is always available to pay benefits at any time. This allows the Fund to continue to implement a long-term investment strategy.

24. The asset allocation is regularly reviewed to consider whether it is appropriate to change the mix of growth versus income assets.

Investment Strategy

Requirement to invest fund money in a wide variety of investments

25. In setting asset allocation to deliver the Fund Return Target the Fund will seek as far as possible to invest in a diversified range of uncorrelated assets in order to reduce the level of investment risk.

Types of investments

26. Subject to the LGPS regulations on allowable investments the Fund may invest in a wide range of assets and strategies including quoted equity, government and non-government bonds, currencies, money markets, commodities, traded options, financial futures and derivatives, alternative strategies, private equity and debt markets, infrastructure and property. Investment may be made either in-house, indirectly (via funds) in physical assets or using derivatives, or through external managers including the Pool. The fund may use external managers to carry out stock lending ensuring suitable controls/risk parameters are put in place to prevent losses. Where an asset class/strategy is not expected to help in delivering the risk adjusted investment return required it will not be held.

Approach to investment

27. The Fund bases its approach to investment on the investment beliefs set out in Appendix A. As the Pool takes over implementation of the investments, some of them will become less relevant to the Pension Fund Committee's decisions but they should be seen as the fundamental core of how the Fund's assets are invested.

Approach to risk, including the ways in which risks are to be assessed and managed

28. The risk tolerance of the Fund is agreed with the Pension Fund Committee, the investment team and independent adviser through the setting of investment beliefs, funding and investment objectives. The Fund will only take sufficient risk in order to meet the Fund Target Return set out in paragraph 19, currently 6%.

29. The risks the Fund is exposed to include investment, operational, governance, currency, demographic and funding risks. These risks are identified, measured, monitored and then managed. This is carried out using risk registers with section responsibility and oversight from the Head of Governance and Chief Risk Officer. Plans are put in place to mitigate these risks so far as that is possible. Details are given in Appendix B.

Approach to pooling investments

30. The Fund is entering the Pool with the understanding that the pooled investments will benefit from lower investment costs, greater investment capability, improved ability to act as a responsible investor and access to more uncorrelated asset classes. Becoming an FCA registered investment manager is expected to lead to improved governance, transparency and reporting giving the Pension Fund assurance that its investment strategy is being carried out effectively.

31. It is expected that most of the Fund's assets will be transferred to the Pool over a period of time. The Pool is setting up sub-funds which the Fund and other partners expect to invest in.

It is likely that this process will take place over a period of at least two or three years, with the timing being dependent on market conditions and operational circumstances. Where there are financial or other barriers to transfers, assets may remain in the Fund's ownership.

32. Governance of the Pool will primarily take place through the Shareholders Forum, governed by a Shareholders Agreement and operating under company law, which will have formal decision making powers. Nottinghamshire County Council will have equal voting rights alongside the other participating funds and unanimous decisions will be required on key strategic matters. These are specified in the Shareholders Agreement and Articles of Association, and include the appointment and dismissal of the company's senior executives, approval of the company's strategic plan and any significant financial transactions, such as major acquisitions, lending or borrowing.

33. The degree of control to be exercised by the Shareholders through their reserved powers will be greater than is generally the case, in order to satisfy the Teckal exemption criteria and allow the company to undertake services on behalf of the investor funds without a formal procurement process.

34. The Joint Committee, established by an Inter-Authority Agreement, will be the forum for dealing with common investor issues and for collective monitoring of the performance of the pool against the agreed objectives of the Pool. It will, however, have no formal decision-making powers and recommendations will require the approval of individual authorities, in accordance with their local constitutional arrangements.

35. The government has made clear their expectation that pooled entities should be regulated by the Financial Conduct Authority (FCA) to ensure appropriate safeguards over the management of client monies. As such the Pool will be subject to ongoing oversight by the FCA and those holding key management positions, including the company directors, need to be approved persons, able to demonstrate appropriate knowledge, expertise and track record in investment management. The Directors of the Pool will also be personally liable for their actions and decisions.

36. Comprehensive programme governance arrangements are in place to ensure that costs and savings are managed in accordance with the agreed business case. The Section 151 Officers of each of the participating funds sit on the LGPS Practitioners Advisory Forum and regular meetings are held with the Chair and Vice-Chair of the Pension Fund Committee to ensure effective member oversight of progress and delivery. The Nottinghamshire Pension Fund Committee and the Local Pension Board are also being updated regularly on key developments and decisions.

37. Expert advisers have been appointed to provide support on legal matters, FCA registration, taxation and overall programme management.

Assessment of the suitability of investments

38. The policy of the Fund will be to treat the equity allocation as a block aimed at maximising the financial returns to the funds (and thus minimising employers' contributions) consistent with an acceptable level of risk. Other investments, such as property, fixed income, infrastructure or cash are aimed at mitigating risks which the Fund are exposed to, such as inflation, cashflow shortage, interest rate changes etc.

39. The Trustees have agreed an allocation to private equity and infrastructure. The allocation is based on committed amounts and, owing to the nature of these vehicles, the actual net investment level may be lower, perhaps significantly so. New investments will be made over time to target a commitment level of 12% of the Fund (within an allocation range up to 15% to allow for movements in market value).

40. Cash will be managed and invested on the Fund's behalf by the County Council in line with its treasury management policy. The policy is to invest surplus funds prudently, giving priority to security and liquidity rather than yield. If losses occur, however, the Fund will bear its share of those losses.

41. Pension fund cash is separately identified in a named account and specific investment decisions will be made on any surplus cash identified, based on the estimated cash flow requirements of the Fund. As the majority of cash is allocated to individual investment managers and may be called by them for investment at short notice, it is expected that the majority of cash will be placed on call or on short-term fixed deposits. Unallocated balances may be placed directly with the Fund's custodian.

Policy on social, environmental and corporate governance considerations

42. Social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments. Non-financial factors may be considered to the extent that they are not significantly detrimental to the investment return and the Committee is satisfied that members share their concerns.

43. It is recognised that Environmental, Social, and Governance ("ESG") factors including climate change are important to long term investment performance and the ability to achieve long term sustainable returns. The Pension Fund Committee considers the Fund's approach to ESG in three key areas:
    a. Selection – considering the financial impact of ESG factors on its investments.
    b. Stewardship – acting as responsible and active owners, through considered voting of shares and engaging with investee company management as part of the investment process. The Committee supports the Stewardship Code and intends to become a signatory.
    c. Transparency & Disclosure – commitment to reporting the outcomes of the Fund's stewardship activities.

44. In combination these three matters are often referred to as "Responsible Investment" or "RI" and this is the preferred terminology of the fund. Effective management of financially material ESG risks should support the requirement to protect investment returns over the long term. The Committee bases its decisions in this area on its RI Investment Beliefs, which are set out within Appendix A.

45. The Pool has a fully developed set of RI policies, which are in line with the Committee's own investment beliefs. This includes a *Responsible Investment & Engagement Framework*, a *Statement of Compliance with the UK Stewardship Code*, and *Voting Principles*. The Fund, through the Pool's Practitioners Advisory Forum, contributes to the development of these policies. As the Fund transfers assets to it, the Pool will take responsibility for ensuring that underlying managers meet with the requirements of this policy. The Pool will also engage directly with investee companies to promote sustainable business practices that reward long-term investors. Voting rights associated with assets invested through the Pool's subfunds will be instructed according to the Pool's agreed *Voting Principles*. The Pool will be required to

report on its RI policy to the Committee on a regular basis in order to demonstrate the implementation of the agreed RI policies.

46. The Fund has articulated an investment belief on the relevance of climate change for financial markets (see Appendix A). In line with this belief, the Fund will actively look for investments which can be expected to benefit as a result of the long-term impacts of climate change.

Policy on the exercise of the rights (including voting rights) attaching to investments

47. Membership of the Local Authority Pension Fund Forum (LAPFF) helps Nottinghamshire Pension Fund to engage with companies to understand issues and to promote best practice. LAPFF was set up in 1990 and is a voluntary association of the majority of Local Authority pension funds based in the UK with combined assets of over £200bn. It exists to protect the long term investment interest of local authority pension funds, and to maximise their influence as shareholders by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies.

48. The Committee believes that voting is an integral part of the responsible investment and stewardship process. The Fund manages its ownership responsibilities through both its partnership with Pensions & Investment Research Consultants Ltd (PIRC) and via its investment managers. PIRC is a major independent corporate governance and shareholder advisory consultancy. PIRC exercises all the Funds voting rights in line with the PIRC proxy voting guidelines.

49. The Pool is a Tier 1 signatory to the Stewardship Code and it is the Fund's aspiration to follow suit.

50. PIRC reports quarterly on its voting activity, and these reports are available to Committee Members and the membership through the website. The availability of this information is stated in the Annual Report.

Other Issues

51. The Fund's assets are held in custody by a combination of an independent custodian, investment managers and in-house. The performance of fund managers will be measured against individual benchmarks and the overall fund, including cash returns, against the Fund Target Return. Performance will be measured by an independent agency. The statement of accounts will be audited by the County Council's external auditors.

52. The investment management arrangements of the Fund can be found in the latest annual report (available on the Fund's website, www.nottspf.org.uk). The Fund also publishes details of its holdings on the website on a quarterly basis.

53. This Investment Strategy Statement will be kept under review and will be revised following any material changes in policy.

APPENDIX A - Statement of Investment Beliefs

54. The Fund's investment beliefs outline key aspects of how it sets and manages its exposures to investment risk. They are as follows:

Financial market beliefs

- Return is related to risk but taking calculated risks does not guarantee returns. The actual outcome may be higher or lower than that expected.
- The Fund has a long term investment horizon and is able to invest in volatile and/or illiquid investment classes in order to generate higher returns.
- Markets are dynamic and are not always efficient, and therefore offer opportunities for investors.
- Diversification is a key technique available to institutional investors for improving risk-adjusted returns.

Investment strategy/process beliefs

- Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy. Risk should be viewed both qualitatively and quantitatively. Particular focus should be given to the risk of loss and also to the nature and likelihood of extreme events so that the Fund is not a forced seller of assets.
- Strategic asset allocation is a key determinant of risk and return, typically more important than manager or stock selection.
- Equities are expected to generate superior long-term returns relative to Government bonds.
- Alternative asset class investments are designed to further diversify the portfolio and improve its risk-return characteristics.
- Active management can add value over time, but it is not guaranteed and can be hard to access. Where generating 'alpha' is particularly difficult, passive management is preferred.
- Operational, counterparty and reputational risk need assessment and management, in addition to investment risk.
- Managing fees and costs matter, especially in low-return environments. Fee arrangements with our fund managers – as well as the remuneration policies of investee companies – should be aligned with the Fund's long-term interests.
-

Organisational beliefs

- Clear investment objectives are essential.
- Effective governance and decision-making structures that promote decisiveness, efficiency and accountability are effective and add value to the Fund.
- The Pension Fund Committee's fiduciary duty is to the members of the Pension Fund. While they are not trustees, they have trustee-like responsibilities.

Responsible investment beliefs

- Responsible investment is supportive of risk-adjusted returns over the long term, across all asset classes. As a long-term investor, the Fund should seek to invest in assets with sustainable business models across all asset classes.
- Responsible investment should be integrated into the investment processes of the Fund, the Pool, and underlying investment managers.
- A strategy of engagement rather than exclusion is more compatible with fiduciary duty, and is more supportive of responsible investment.
- Investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events.
- There is risk but also opportunity in holding companies which have weak governance of financially material ESG issues. Opportunities can be captured so long as decisions are based on sufficient evidence and they are aligned with the Fund's objectives and strategy.
- Climate change and the response of policy makers has the potential to have a serious impact on financial markets. Engagement, using partnerships of like-minded investors where feasible, can mitigate this risk.

Appendix B - Risk Management

55. The Fund has adopted a Risk Management Strategy to:
    a) Identify key risks to the achievement of the Funds objectives.
    b) Assess the risks for likelihood and impact.
    c) Identify mitigating controls.
    d) Allocate responsibility for the mitigating controls.

56. Officers are responsible for maintaining a risk register detailing the risk features in a)-d) above, for reviewing and updating it on a regular basis, and reporting the outcome of the review to the Nottinghamshire Pension Fund Committee.

57. The Risk Register is a key part of the strategy as it identifies the main risks to the operation of the Fund, prioritising the risks identified and detailing the actions required to further reduce the risks involved.

58. A key part of managing the investment risk is by ensuring that the Fund is invested through an adequate number of suitably qualified investment managers and by requiring managers to hold a diversified spread of assets. As the Pool takes over implementation of the assets, the Pension Fund's Committee's role will increasingly be to hold them to account.

59. The correlation between UK and overseas markets has increased significantly over recent time, reflecting the increasing globalisation of the market. The Fund will take into account exchange rate risks when deciding the balance between holding of UK and overseas equities. As a long term investor, the Fund does not undertake currency hedging itself. Individual managers may hedge currency risks but only with prior approval from the Fund.

60. In addition, the following advisory guidelines will apply. These guidelines will be reviewed from time to time and if changes are made these will be incorporated into a revised Investment Strategy Statement, and amendments will be published.
    - Not more than 20% of the Fund to be invested in unlisted securities.
    - No direct underwriting without prior approval.
    - No direct involvement in derivatives (including currency options) without prior approval.

Nottinghamshire County Council

Nottinghamshire Pension Fund

April 2019

RISK MANAGEMENT STRATEGY

Introduction

1. This is the Risk Management Strategy for the Nottinghamshire County Council Pension Fund. Risk Management is a key element in the Fund's overall framework of internal control and its approach to sound governance. However, it is not an end in itself, but a means of minimising the costs and disruption to the Fund caused by undesirable or unexpected events. The aim is to eliminate or reduce the frequency of risk events occurring (where possible and practicable) and minimise the severity of the consequences if they do occur.

2. Risk can be defined as any event or action which could adversely affect the Fund's ability to achieve its purpose and objectives. Risk management is the process by which:
   - risks are systematically identified
   - the potential consequences are evaluated
   - the element of risk is reduced where reasonably practicable
   - actions are taken to control the likelihood of the risk arising and reducing the impact if it does

Purpose and Objectives of the Fund

3. The purpose of the Fund is to:
   - Pay pensions, lump sums and other benefits provided under the LGPS Regulations
   - Meet the costs associated in administering the Fund
   - Receive contributions, transfer values and investment income
   - Invest any Fund money not needed immediately to make payments.

4. The funding objectives are to:
   - Set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund
   - Build up the required assets in such a way that employer contribution rates are kept as low and stable as possible.

5. The following principles underpin the Fund's investment activity:
   - The Fund will aim to maintain sufficient assets to meet all its obligations on a continuing basis.
   - The Fund will be invested in a diversified range of assets.
   - Proper advice on the suitability of types of investment will be obtained and considered at reasonable intervals.

- The Fund will aim to conduct its business and to use its influence in a long term responsible way.

Key Parties

6. The key parties involved in the Fund and their responsibilities are as follows.

The Administering Authority

7. The Administering Authority for the Pension Fund is Nottinghamshire County Council. Under the terms of the Council's constitution, the functions of the Council as administering authority are delegated to the Nottinghamshire Pension Fund Committee. The full governance arrangements of the Fund are detailed in the Fund's Governance Compliance Statement. The main responsibilities of the Administering Authority are to:
    - Collect employee and employer contributions
    - Invest the Fund's assets
    - Pay the benefits due to Scheme members
    - Manage the actuarial valuation process in conjunction with the Fund Actuary
    - Prepare and maintain the Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) after consultation with other interested parties as appropriate
    - Monitor all aspects of the Fund's performance.

Committee members

8. The members of the Committee are not trustees (as the LGPS is a statutory scheme) but do have fiduciary duties towards the scheme members and employers. The main responsibilities of the Committee are to:
    - Determine the overall investment strategy, and what restrictions, if any, are to be placed on particular types and market locations of investments
    - Determine the type of investment management to be used and appoint and dismiss fund managers
    - Receive quarterly reports on performance from the main fund managers and question them regularly on their performance
    - Receive independent reports on the performance of fund managers on a regular basis
    - Be encouraged to receive suitable training to help them discharge their responsibilities and attend such training courses, conferences and meetings that deliver value for money to the Fund.

Scheme Employers

9. In addition to the Administering Authority, a number of other Scheme Employers, including Admission Bodies, participate in the Fund. The responsibilities of each Scheme Employer that participates in the Fund, including the Administering Authority, are to:
    - Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the Administering Authority within the statutory timescales
    - Notify the Administering Authority of any new Scheme members and any other membership changes promptly
    - Exercise any discretions permitted under the Regulations

- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures
- Notify the Administering Authority of significant changes in the employer's structure or membership.

Fund Actuary

10. The Fund Actuary for the Pension Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:
    - Advise interested parties on funding strategy and completion of actuarial valuations in accordance with the FSS and the Regulations
    - Advise on other actuarial matters affecting the financial position of the Fund.

Chief Finance Officer

11. Under the Council's constitution, the Service Director Finance, Infrastructure & Improvement is designated the Council's Chief Finance Officer (also known as the Section 151 Officer). The Group Manager (Financial Management) is the deputy Section 151 Officer. Financial Regulations specify that the Section 151 Officer is responsible for arranging the investment of the Pension Fund. Operational matters falling under this responsibility are exercised by the Senior Accountant (Pensions & Treasury Management).

12. Representatives of the Service Director Finance, Infrastructure & Improvement provide advice to the Committee on investment matters and attend meetings of the Pension Fund Committees as required.

Service Director Customers, Governance and Employees

13. The Service Director Customers, Governance and Employees is responsible for the Pensions Administration function, operated by the Pensions Office within the Business Support Centre. This function covers:
    - Pensions administration and employers support
    - Pensions administration systems
    - Communications
    - Technical/performance support

14. Representatives of the Service Director Customers, Governance and Employees provide advice to the Committee on pension administration matters and attend meetings of the Pension Fund Committees as required.

Independent Adviser

15. The Fund has an Independent Adviser who attends meetings of the Pension Fund Committee and Pensions Working Party as required.

16. The Independent Adviser is engaged to provide advice on:
    - the objectives and policies of the fund
    - investment strategy and asset allocation
    - the fund's approach to responsible investment
    - choice of benchmarks
    - investment management methods and structures

- choice of managers and external specialists
- activity and performance of investment managers and the fund
- the risks involved with existing or proposed investments
- the fund's current property portfolio and any proposals for purchases, sales, improvement or development
- new developments and opportunities in investment theory and practice.

Risk Management Strategy

17. The risk tolerance of the Fund is agreed with the Pension Fund committee, the investment team and independent adviser through the setting of the investment beliefs, funding and investment objectives. The Fund will only take sufficient risk in order to achieve its long term funding objectives set out in paragraph 4.

18. The Pension Fund's Risk Management Strategy is to:
    a) identify key risks to the achievement of the Fund's aims
    b) assess the risks for likelihood and impact
    c) identify mitigating controls
    d) allocate responsibility for the mitigating controls
    e) maintain a risk register detailing the risk features in a)-d) above
    f) review and update the risk register on an annual basis
    g) report the outcome of the review to the Nottinghamshire Pension Fund Committee.

19. The Risk Register is a key part of the Risk Management Strategy as it identifies the main risks to the operation of the Fund, prioritising the risks identified and detailing the actions required to further reduce the risks involved.

20. All staff involved in the Pension Fund and Members of the Nottinghamshire Pension Fund Committee need to have an appropriate level of understanding of risk and how risks affect the performance of the Fund. To consolidate the risk management process, the Pension Fund Committee will be asked to:-
    - agree the Risk Management Strategy
    - approve the Risk Register and agreed actions
    - receive and approve the Annual Governance Statement, which will comment upon the Fund's risk management process.

21. By adopting this approach, the Pension Fund will be able to demonstrate a clear commitment, at a strategic level, to the effective management of Pension Fund risks. The Risk Management Strategy and Risk Register will be kept under review and will be revised following any material changes in policy.

Nottinghamshire County Council

Pension Fund Risk Register

April 2019

Objectives

1. The objectives of the Risk Register are to:
    - identify key risks to the achievement of the Fund's objectives
    - assess the significance of the risks
    - consider existing controls to mitigate the risks identified
    - Identify additional action required.

Risk Assessment

2. Identified risks are assessed separately and for each the following is determined:
    - the likelihood of the risk materialising
    - the severity of the impact/potential consequences if it does occur.

3. Each factor is evaluated on a sliding scale of 1 to 5 with 5 being the highest value i.e. highest likelihood/most severe impact/consequences. The risk evaluation tables below have been used in order to assess specific risks and to introduce a measure of consistency into the risk assessment process. The overall rating for each risk is calculated by multiplying the likelihood value against the impact value.

LIKELIHOOD:		
1	Rare	0 to 5% chance
2	Unlikely	6 to 20% chance
3	Possible	21 to 50% chance
4	Likely	51 to 80% chance
5	Almost certain	81%+ chance

IMPACT:		
1	Insignificant	0 to 5% effect
2	Minor	6 to 20% effect
3	Moderate	21 to 50% effect
4	Significant	51 to 80% effect
5	Catastrophic	81%+ effect

4. Having scored each risk for likelihood and impact, the risk ratings can be plotted onto the following matrix to enable risks to be categorised into Low, Medium, High and Very High Risk.

Risk Rating Matrix

Relative Impact		(1) Rare	(2) Unlikely	(3) Possible	(4) Likely	(5) Almost Certain
Catastrophic	(5)	**M**	**H**	**VH**	**VH**	**VH**
Significant	(4)	**M**	**H**	**VH**	**VH**	**VH**
Moderate	(3)	**M**	**M**	**H**	**H**	**H**
Minor	(2)	**L**	**L**	**M**	**M**	**M**
Insignificant	(1)	**L**	**L**	**L**	**L**	**L**

Relative Likelihood

5. This initial assessment gives the inherent risk level. Existing controls are then identified and each risk is re-assessed to determine if the controls are effective at reducing the risk rating. This gives the current (or residual) risk level. The current risk rating scores and categories are then used to prioritise the risks shown in the register in order to determine where additional action is required in accordance with the following order of priority:

    Red = Very High Priority
    Take urgent action to mitigate the risk.
    Orange = High Priority
    Take action to mitigate the risk.
    Yellow = Medium Priority
    Check current controls and consider if others are required.
    Green = Low Priority
    No immediate action other than to set a review date to re-consider your assessment.

NOTTINGHAMSHIRE PENSION FUND
RISK REGISTER - SUMMARY

Key to risk rating change since previous version of Risk Register: ⬆ Increase ⬇ Decrease ⬌ No Change ★ New

Risk Description	Inherent Risk			Current Risk		
	Rating		Change	Rating		Change
Risk Gov4 Inadequate resources are available to manage the pension fund.	20	VERY HIGH	⬌	12	HIGH	⬌
Risk Inv3 Fund assets are assessed as insufficient to meet long term liabilities.	16	VERY HIGH	⬌	9	HIGH	⬌
Risk Adm1 Standing data & permanent records are not accurate.	16	VERY HIGH	⬌	9	HIGH	⬌
Risk Adm2 Inadequate controls to safeguard pension fund records	15	VERY HIGH	⬌	6	MEDIUM	⬌
Risk Inv4 Significant variations from assumptions used in the actuarial valuation	12	HIGH	⬌	9	HIGH	⬌
Risk Inv1 Inappropriate investment strategy is adopted.	12	VERY HIGH	⬌	6	MEDIUM	⬌
Risk Inv5b Custody arrangements	12	VERY HIGH	⬌	6	MEDIUM	⬌
Risk Inv6 LGPS Central incurs net costs or decreases investment returns	12	VERY HIGH	⬌	9	HIGH	⬌
Risk Gov5 Failure to adhere to relevant legislation and guidance.	12	HIGH	⬌	6	MEDIUM	⬌
Risk Gov3 An effective performance management framework is not in place.	9	HIGH	⬌	6	MEDIUM	⬌
Risk Gov1 Pension Fund governance arrangements are not effective	9	HIGH	⬌	6	MEDIUM	⬌
Risk Gov2 Pension Fund objectives are not defined and agreed.	9	HIGH	⬌	6	MEDIUM	⬌
Risk Inv2 Fund cash is insufficient to meet its current obligations.	9	HIGH	⬌	6	MEDIUM	⬌
Risk Inv5a Fund manager mandates	9	HIGH	⬌	6	MEDIUM	⬌
Risk Inv5d Financial Administration	9	HIGH	⬌	6	MEDIUM	⬌
Risk Adm3 Failure to communicate adequately with all relevant	9	HIGH	⬌	6	MEDIUM	⬌

stakeholders.						
Risk Inv5c Accounting arrangements	6	MEDIUM	⬌	4	LOW	⬌
Risk Inv5e Stewardship	6	MEDIUM	⬌	4	LOW	⬌

Governance					
Risk description: Gov1 - Pension Fund governance arrangements are not effective					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	3	**9**	**HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• The Council's constitution clearly delegates the functions of administering authority of the pension fund to the Nottinghamshire Pension Fund Committee.				
	• Under the LGPS Regulations the Administering Authority has established a Pension Board				
	• The terms of reference of the Pension Fund Committee are agreed. • The terms of reference of the Pension Board are agreed.				
	• The Fund publishes a Governance Compliance Statement which details the governance arrangements of the Fund and assesses compliance with best practice. This is kept regularly under review.				
	• A training policy is in place which requires Members to receive continuing training and encourages all new Members to attend the Local Government Pension Scheme Fundamentals training course. • Pension Board Members are also required to undertake training				
	• Officers of the Council attend meetings of the Pension Fund Committee and the Pension Board.				
	• The Fund has a formal contract for an independent adviser to give advice on investment matters. They are contracted to attend each Pension Fund Committee meeting.				
	• The Administering Authority has a formal contract for an independent adviser to give advice on LGPS regulations to the Pension Board				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (Financial Services) Group Manager (BSC) Group Manager (Legal Services) Pension Manager Senior Accountant - Pensions & TM		**Timescale:**	On-going	

Governance					
Risk description: Gov2 - Pension Fund objectives are not defined and agreed					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	3	**9**	**HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• Purpose and objectives are outlined in the Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS). Both documents are				

	approved by the Pension Fund Committee and reviewed on a regular basis.		
Action Required:	• Continue to monitor via existing processes.		
Responsibility:	Pension Fund Committee; Group Manager (Financial Services)	**Timescale:**	On-going

Governance					
Risk description: Gov3 - An effective performance management framework is not in place.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	3	**12**	**HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• Investment performance is reported quarterly to the Pension Fund Committee. The Fund's main investment managers attend each quarter and officers receive regular updates from the Fund's other investment managers.				
	• Poor investment performance is considered by the Pension Fund Committee. The Pension Fund Committee's actions are monitored by the Pension Board				
	• A Fund strategic benchmark has been implemented to improve monitoring of decisions regarding asset allocation and investment management arrangements.				
	• Performance of the administration function is managed through an Administration Strategy				
Action Required:	• Consider performance monitoring framework for Fund Administration.				
Responsibility:	NPF Committee Group Manager (Financial Services); Group Manager (BSC) Pension Manager Senior Accountant - Pensions & TM		**Timescale:**	On-going	

Governance					
Risk description: Gov4 - Inadequate resources are available to manage the pension fund.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	5	4	**20**	**VERY HIGH**	⬌
Current Risk:	4	3	**12**	**HIGH**	⬌
Current Controls:	• The pension fund investments are managed by the Pensions & Treasury Management team.				
	• Pension administration is managed by the Pension Team Manager				

	within the BSC • Operating costs are recharged to the pension fund in accordance with regulations. • Staffing levels and structures are kept under regular review. • Pension Costs and resources monitored against the CIPFA Benchmarking club		
Action Required:	• Continue to monitor via existing processes.		
Responsibility:	Group Manager (Financial Services); Group Manager (BSC) Pension Manager Senior Accountant - Pensions & TM	**Timescale:**	On-going

Governance					
Risk description: Gov5 - Failure to adhere to relevant legislation and guidance.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	4	3	**12**	**HIGH**	⬌
Current Risk:	3	2	**6**	**MEDIUM**	⬌
Current Controls:	• An established process exists to inform members and officers of statutory requirements and any changes to these. • An Administration Strategy was introduced in 2017 to monitor the Administration of the Fund, along with monitoring Employer compliance. • Sufficient resources are put in place to implement LGPS changes while continuing to administer the scheme. • Membership of relevant professional groups ensures changes in statutory and other requirements are registered before the implementation dates. • Any breaches in statutory regulations must be reported to the Pension Regulator.				
Action Required:	• Review Resources against statutory requirements • Continue to monitor requirements via appropriate sources. • Continue to monitor resources to ensure adherence to legislation and guidance.				
Responsibility:	Group Manager (Financial Services); Group Manager (BSC); Senior Accountant - Pensions & TM Pension Manager		**Timescale:**	On-going	
Investments					
Risk description: Inv1 - Inappropriate investment strategy is adopted.					

	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	4	**12**	**VERY HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• The investment strategy is in accordance with LGPS investment regulations and is documented, reviewed and approved by the Pension Fund Committee.				
	• The Strategy takes into account the expected returns assumed by the actuary at the triennial valuation.				
	• Investment performance is monitored against the Fund's strategic benchmark.				
	• A regular review takes place of the Fund's asset allocation strategy by the Pension Fund Working Party.				
	• An external adviser provides specialist guidance to the Pension Fund Committee on the investment strategy.				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	

Investments					
Risk description: Inv2 - Fund cash is insufficient to meet its current obligations.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	3	**9**	**HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls	• Fund cash flow is monitored daily and a summary fund account is reported to Pension Fund Committee each quarter				
	• Annual accounts are produced for the pension fund and these show the movements in net cash inflow				
	• Regular assessment of Fund assets and liabilities is carried out through actuarial valuations.				
	• The Fund's Investment and Funding Strategies are regularly reviewed				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Pension Committee; Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	
Investments					
Risk description: Inv3 - Fund assets are assessed as insufficient to meet long term liabilities.					
	Likelihood:	**Impact:**	**Risk Rating:**		

Inherent Risk:	4	4	**16**	**VERY HIGH**	⬌
Current Risk:	3	3	**9**	**HIGH**	⬌
Current Controls:	• Fund assets are kept under review as part of the Fund's performance management framework.				
	• Regular assessment of Fund assets and liabilities is carried out through Actuarial valuations.				
	• The Fund's Investment and Funding Strategies are regularly reviewed.				
	• An external adviser provides specialist guidance to the Pension Fund Committee on the investment strategy.				
Action Required:	• Continue to monitor via existing processes. • Review cash flow projections prepared by actuaries on a regular basis.				
Responsibility:	Pension Committee Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	

Investments					
Risk description: Inv4 - Significant variations from assumptions used in the actuarial valuation occur					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	4	3	**12**	**HIGH**	⬌
Current Risk:	3	3	**9**	**HIGH**	⬌
Current Controls:	• Actuarial assumptions are reviewed by officers and discussed with the actuaries				
	• Sensitivity analysis is undertaken on assumptions to measure impact				
	• Valuation are undertaken every 3 years				
	• Monitoring of cash flow position and preparation of medium term business plan.				
	• Contributions made by employers vary according to their member profile.				
Action Required:	• Continue to monitor via existing processes. • Review cash flow projections prepared by actuaries on a regular basis.				
Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	

Investments					
Risk description: Inv5 - Inadequate controls to safeguard pension fund assets.					
Inv5a - Investment managers					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	3	**9**	**HIGH**	⬌

Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• Complete and authorised client agreements are in place. This includes requirement for fund managers to report regularly on their performance. Mandate managers attend Pension Fund Committee on a quarterly basis.				
	• Investment objectives are set, and portfolios must be managed in accordance with these				
	• AAF 01/06 (or equivalent) reports on internal controls of service organisations are reviewed for mandate managers.				
	• In-House Fund has a robust framework in place which is regularly tested by internal audit				
	• Fund Managers maintain an appropriate risk management framework to minimise the level of risk to Pension Fund assets.				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	
Inv5b - Custody arrangements					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	4	**12**	**VERY HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• Complete and authorised agreements are in place with the external custodian.				
	• AAF 01/06 (or equivalent) report on internal controls is reviewed for external custodian.				
	• Regular reconciliations carried out to check external custodian records.				
	• Where assets are custodied in-house, physical stock certificates are held in a secure cabinet to which access is limited.				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	
Inv5c - Accounting arrangements					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	2	**6**	**MEDIUM**	⬌
Current Risk:	2	2	**4**	**LOW**	⬌
Current Controls:	• Pension Fund accounting arrangements conform to the Local Authority Accounting Code, relevant IFRS/IAS and the Pensions' SORP.				
	• The Pension Fund subscribes to the CIPFA Pensions Network and Technical Information Service and officers attend courses as appropriate.				
	• Regular reconciliations are carried out between in-house records and				

	those maintained by the external custodian and investment managers.				
	• Internal Audits are carried out regularly.				
	• External Audit review the Pension Fund's accounts annually.				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	
Inv5d - Financial Administration					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	3	**9**	**HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• The pension fund adheres to the County Council's financial regulations with appropriate separation of duties and authorisation limits for transactions.				
	• Daily cash settlements are made with the external custodian to maximise returns on cash.				
	• Investment transactions are properly authorised, executed and monitored.				
	• Contributions due to the fund are governed by Scheme rules which are implemented by the Pensions Manager				
	• The Pension fund maintains a bank account which is operated within regulatory guidelines.				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	
Inv5e – Stewardship -					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	2	**6**	**MEDIUM**	⬌
Current Risk:	2	2	**4**	**LOW**	⬌
Current Controls:	• The pension fund aims to be a long term responsible investor and plans to adopt the FRC's Stewardship code.				
	• The Fund is a member of Local Authority Pension Fund Forum (LAPFF) and National Association of Pension Funds (NAPF), and supports their work on shareholder engagement.				
	• The pension fund has a contract in place for a proxy voting services. Voting is reported to the Pension Fund Committee each quarter and published on the Fund website.				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	

Investments

Risk description: Inv6 - LGPS Central incurs net costs or decreases investment returns

	Likelihood:	Impact:	Risk Rating:		
Inherent Risk:	3	4	**12**	**VERY HIGH**	⬌
Current Risk:	3	3	**9**	**HIGH**	⬌
Current Controls:	• We are shareholders in LGPS Central and have significant influence on them through involvement in Shareholders Forum, Joint Committee and PAF				
	• Costs and performance will be monitored				
Action Required:	• Continue to attend meetings relevant meetings • Continue to monitor via existing processes.				
Responsibility:	Pension Fund Committee Group Manager (Financial Services); Senior Accountant - Pensions & TM	**Timescale:**	On-going		

Administration

Risk description: Adm1 - Standing data and permanent records are not accurate.

	Likelihood:	Impact:	Risk Rating:		
Inherent Risk:	4	4	**16**	**VERY HIGH**	⬌
Current Risk:	3	3	**9**	**HIGH**	⬌
Current Controls:	• Business processes are in place to identify changes to standing data.				
	• Records are supported by appropriate documentation; input and output checks are undertaken; reconciliation occurs to source records once input.				
	• Documentation is maintained in line with agreed policies. • The Administration Strategy supports the monitoring of employer compliance.				
	• A change of details form is sent out to members alongside their annual statement.				
	• Data matching exercises (National Fraud Initiative) help to identify discrepancies.				
	• Mortality Screening is being performed				
	• The Data Improvement Plan presented to Pension Fund Committee is being implemented.				
	• The GMP Reconciliation Project including Payroll and Pensions				

	Data matching exercise with HMRC has commenced		
Action Required:	• Continue to monitor via existing processes. • Improve monitoring of returns from major fund employers • Implementation of Data Improvement plan and GDPR Action Plan		
Responsibility:	Group Manager (BSC) Pension Manager	**Timescale:**	On-going

Administration					
Risk description: Adm2 - Inadequate controls to safeguard pension fund records.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	5	**15**	**VERY HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• ICT Disaster Recovery Plan and Security Plan are agreed and in place				
	• New back up arrangements are in place				
	• Software is regularly updated to meet LGPS requirements.				
	• Audit trails and reconciliations are in place. • GDPR plan is in place				
	• Documentation is maintained in line with agreed policies.				
	• Physical records are held securely. • Pensions and other related administration staff undertake data management training as required.				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (BSC) Pension Manager		**Timescale:**	On-going	

Administration					
Risk description: Adm3 - Failure to communicate adequately with all relevant stakeholders.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	3	**9**	**HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• A communications strategy is in place and is regularly reviewed.				
	• The Fund website is periodically updated. • Member information guides are reviewed.				
	• The Fund has an annual meeting aimed at all participating employers.				
	• The Pension Fund Committee has representatives of the County				

	Council, City Council, Nottinghamshire Local Authorities, Trade Unions, Scheduled and Admitted Bodies.		
	• Meetings are held regularly with employers within the Fund. • District and City Council employers and other adhoc employer meetings take place as required • A briefing for employers takes place in February or March each year in preparation for year end		
	• Benefit Illustrations are sent annually to contributing and deferred Fund members.		
	• Annual report, prepared in accordance with statutory guidelines, is published on the website.		
Action Required:	• Consider employer risk analyses to safeguard contributions to the Fund.		
Responsibility:	Group Manager (BSC) Pension Manager	**Timescale:**	On-going

Nottinghamshire County Council

Pension Fund Governance Compliance Statement

April 2019

1. Introduction

1.1 This is the governance compliance statement of the Nottinghamshire pension fund which is part of the Local Government Pension Scheme and administered by Nottinghamshire County Council (the council). The statement has been prepared as required by the Local Government Pension Scheme (Administration) Regulations 2013.

2. Governance Arrangements

2.1 Under the terms of the council's constitution, the functions of the council as administering authority of the pension fund are delegated to the Nottinghamshire Pension Fund Committee. This is in line with guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA).

2.2 The Nottinghamshire Pension Fund Committee meets eight times a year and its members act in a quasi-trustee capacity. Under the constitution, it is responsible for Administering the Nottinghamshire Pension Fund, including investments and management of pension funds.

2.3 The Committee also has responsibility for investment performance management of the Fund Managers. It may appoint a working party to consider future policy and development.

2.4 The Committee has the further responsibility for matters relating to the administration of the Pension Fund.

2.5 The number of voting members of the Nottinghamshire Pension Fund Committee is determined by the Council at its annual meeting.

3. Functions and Responsibilities

3.1 The Nottinghamshire Pension Fund Committee separately approves the pension fund's Funding Strategy Statement, Investment Strategy Statement, Risk Management Strategy, Administration Strategy Statement and Communications Strategy Statement.

3.2 The Funding Strategy Statement sets out the aims and purpose of the pension funds and the responsibilities of the administering authority as regards funding the scheme. Funding is the making of advance provision to meet the cost of accruing benefit promises and the long term objective is to achieve and then maintain assets equal to 100% of projected accrued liabilities. These responsibilities are delegated to the Nottinghamshire Pension Fund Committee.

3.3 The Investment Strategy Statement sets out more detailed responsibilities relating to the overall investment strategy of the funds including the proposed asset allocation, restrictions on investment types, the type of investment management used and performance monitoring. It also covers the fund’s policy on trustee training and expenses and states the fund’s approach to socially responsible investment and corporate governance issues. These responsibilities are delegated to the Nottinghamshire Pension Fund Committee.

3.4 Financial Regulations specify that the Service Director (Finance, Infrastructure & Improvement) is responsible for arranging the investment of the Pension Fund. Operational matters falling under this responsibility are exercised by the Senior Accountant (Pensions & Treasury Management).

3.5 The Risk Management Strategy aims to reduce or eliminate risks which may jeopardise the achievement of the Fund’s key objectives. It includes a risk register that identifies and prioritises the main risks to the operation of the fund. Responsibility for the Risk Management Strategy is delegated to the Nottinghamshire Pension Fund Committee.

3.6 The Communications Strategy Statement details the overall strategy for involving stakeholders in the pension funds. The stakeholders identified are:

- trustees
- current and prospective scheme members
- scheme employers
- administration staff
- other bodies.

Responsibility for the communications strategy is delegated to the Nottinghamshire Pension Fund Committee.

4. Representation

4.1 The Nottinghamshire Pension Fund Committee has 9 voting members all of whom are current county councillors. The political make-up of the committee is in line with the current council and the chair is normally appointed by Council. These members have full voting rights.

4.2 In addition the Committee also has 10 members consisting of the following representatives:

- Nottingham City Council (3)
- Nottinghamshire Local Authorities' Association (2)
- scheduled and admitted bodies (1)
- trade unions (2)
- Pensioner representatives (2)

4.3 Meetings of the Committee are also attended by officers of the County Council and an independent adviser. This ensures the Committee has access to "proper advice" as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Proper advice is defined as the advice of a person who is reasonably believed to be qualified by their ability in and practical experience of financial matters. This includes any such person who is an officer of the administering authority.

5. Stakeholder Engagement

5.1 An annual meeting of the pension funds is held in October to which all employer representatives and scheme members are welcome. The purpose of the meeting is to report on investment performance and current issues of concern to the pension funds.

5.2 A number of other initiatives to involve stakeholders are currently in place including:

- regular employers meetings
- meetings between employers and actuaries
- Nottinghamshire Finance Officers meetings
- the annual report for the pension fund
- Pensions road shows at various venues around the County
- dedicated pension fund website.

6. Review and Compliance with Best Practice

6.1 This statement will be kept under review and will be revised and published following any material change in the governance arrangements of the pension funds.

6.2 The regulations required a statement as to the extent to which the governance arrangements comply with guidance issued by the Secretary of State. The guidance contains best practice principles and so are shown below with the assessment of compliance.

Ref.	Principles	Compliance and Comments
A	**Structure**	
a.	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	**Fully compliant**
b.	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	**Fully compliant**
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	**Not applicable**
d.	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	**Not applicable**
B	**Representation**	
a.	That all key stakeholders are afforded the opportunity to be represented. within the main or secondary committee structure. These include :- i) employing authorities (including non-scheme employers, eg, admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) independent professional observers, and iv) expert advisors (on an ad-hoc basis).	**Fully compliant**
b.	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	**Fully compliant**
C	**Selection and role of lay members**	
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	**Fully compliant** All members of the Nottinghamshire Pension Fund Committee are aware of their responsibilities for the oversight of the funds.
D	**Voting**	
a.	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	**Fully compliant**
E	**Training/facility time/expenses**	

a.	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	**Fully compliant** Members are encouraged to receive suitable training to help them discharge their responsibilities including attending training courses, conferences and meetings. Travel and subsistence arrangements are those which prevail for the County Council.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	**Fully compliant**
F	**Meetings (frequency/quorum)**	
a.	That an administering authority's main committee or committees meet at least quarterly.	**Fully compliant** The Nottinghamshire Pension Fund Committee meets 8 times a year.
b.	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	**Not applicable**
c.	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	**Not applicable**
G	**Access**	
a.	That subject to any rules in the councils constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	**Fully compliant**
H	**Scope**	
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	**Fully compliant**
I	**Publicity**	
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	**Fully compliant** The governance compliance statement is published on the pension fund website and is included with the relevant committee report (available on the County Council website).

Nottinghamshire County Council

Report to Pension Fund Committee

9 May 2019

Agenda Item: 9

REPORT OF THE SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE AND EMPLOYEES

WORK PROGRAMME

Purpose of the Report

1. To consider the Committee's work programme for 2019.

Information

2. The County Council requires each committee to maintain a work programme. The work programme will assist the management of the committee's agenda, the scheduling of the committee's business and forward planning. The work programme will be updated and reviewed at each pre-agenda meeting and committee meeting. Any member of the committee is able to suggest items for possible inclusion.

3. The attached work programme has been drafted in consultation with the Chair and Vice-Chairs, and includes items which can be anticipated at the present time. Other items will be added to the programme as they are identified.

4. As part of the transparency introduced by the revised committee arrangements from 2012, committees are expected to review day to day operational decisions made by officers using their delegated powers. It is anticipated that the committee will wish to commission periodic reports on such decisions. The committee is therefore requested to identify activities on which it would like to receive reports for inclusion in the work programme.

Other Options Considered

5. None.

Reason/s for Recommendation/s

6. To assist the committee in preparing its work programme.

Statutory and Policy Implications

7. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required

RECOMMENDATION/S

1) That the Committee considers whether any amendments are required to the Work Programme.

Marjorie Toward
Customers, Governance and Employees

For any enquiries about this report please contact: Pete Barker, x74416

Constitutional Comments (HD)

8. The Committee has authority to consider the matters set out in this report by virtue of its terms of reference.

Financial Comments (NS)

9. There are no direct financial implications arising from the contents of this report. Any future reports to Committee on operational activities and officer working groups, will contain relevant financial information and comments.

Background Papers

None.

Electoral Division(s) and Member(s) Affected

All

PENSION FUND COMMITTEE – WORK PROGRAMME

Report Title	**Brief summary of agenda item**	**Report Author**
25 April 2019		
LGPS Central Ltd	Update Report	Tamsin Rabbitts
Annual Review of Strategies		Tamsin Rabbitts
Proxy Voting	Summary of voting activity during quarters 3 & 4 of 2018	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
LAPFF Conference	Report from the LAPFF conference	Tamsin Rabbitts
LGPS Scheme Advisory Board Update	*6 monthly report updating members on the work of the SAB if anything of note*	*Jon Clewes/Ciaran Guilfoyle*
Admission Body Status Update	Details of organisation who satisfy the criteria to be admitted to the LGPS (as required)	Andy Durrant
6 June 2019		
Fund Valuation & Performance – Qtr 4	Summary of quarterly performance	Tamsin Rabbitts
Fund Valuation & Performance	Details review of quarterly performance (exempt)	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance and managers reports (exempt)	William Bourne
Managers Reports	Quarterly reports from Kames, Schroders and ASI (exempt)	Relevant fund managers
Pension Administration Annual Performance & Strategy Review	Report detailing the Administering Authority and Scheme Employers performance against the Admin Strategy including any data breaches	Jon Clewes

18 July 2019		
Transforming Delivery		Sarah Stevenson
Proxy Voting	Summary of voting activity during quarter 1 of 2016	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
Update on LGPS Asset Pooling	*(If required)*	*Keith Palframan*
PLSA conference	Report from PLSA conference	Nigel Stevenson

Nottinghamshire County Council

Report to Pension Fund Committee

9 May 2019

Agenda Item: 10

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

LGPS CENTRAL LTD PRESENTATION ON PROGRESS

Purpose of the Report

1. To inform Committee of a presentation to be delivered by LGPS Central Ltd.

2. In the July Budget 2015, the Government announced its intention to work with Local Government Pension Scheme (LGPS) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. The Nottinghamshire fund created a Midlands based pool, known as LGPS Central, with 8 other participant funds.

3. The presentation will inform Committee of progress to date.

Information

4. Some information within the presentation is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972. Having regard to the circumstances, on balance the public interest in disclosing the information does not outweigh the reason for exemption because divulging the information would significantly damage the Council's commercial position in relation to the Pension Fund. The presentation will therefore take place during the exempt part of the meeting.

Other Options Considered

5. None

Reason/s for Recommendation/s

6. None

Statutory and Policy Implications

7. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below.

Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

That Committee considers whether there are any actions they require in relation to the issues raised in the presentation.

Nigel Stevenson
Service Director for Finance, Infrastructure & Improvement

For any enquiries about this report please contact:Tamsin Rabbitts

Constitutional Comments (LW 21/03/2019)

8. Pension Fund Committee is the approptiate body to consider the contents of the report.

Financial Comments (TMR 21/03/2019)

9. There are no financial implications.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All

Nottinghamshire County Council

Report to Pension Fund Committee

9 May 2019

Agenda Item:

REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT & IMPROVEMENT

FUTURE OF THE FIXED INCOME PORTFOLIO

Purpose of the Report

1. To decide on the future management of our Fixed Income portfolio.

Information

2. Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires administering authorities of LGPS Schemes to pool investments to reduce costs. LGPS Central Ltd was created by Nottinghamshire and other partners to deliver pooled investments to the member schemes. As funds become available, Nottinghamshire need to consider transferring investments to the pooled arrangements.

3. The fixed income portfolio within Nottinghamshire Pension Fund amounts to around £450 million. It consists of directly held corporate bonds, mainly in UK, with only around £20 million of overseas bonds, and £145 million of gilts.

4. LGPS Central is offering a global active investment grade corporate bond multi manager fund to Pension Funds from May 2019. The fund will not manage our gilt investments. We need to consider the best option for Nottinghamshire Pension Fund.

5. Some information relating to this decision is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972. Having regard to the circumstances, on balance the public interest in disclosing the information does not outweigh the reason for exemption because divulging the information would significantly damage the Council's commercial position in relation to the Pension Fund. The exempt information is set out in the exempt appendices.

Summary Assessment

Guiding principles

6. There are a number of issues we need to consider in deciding how to invest the fixed income portfolio going forwards, and it was decided at the committee meeting in June 2018 that these are the factors that will be analysed to enable the committee to make a decision. These issues are largely common to each of our major portfolios at the point at which we need to consider transferring to LGPS Central. These include:-

- Ongoing management costs
- Transition costs
- Quality and performance of the service
- Risk to service delivery
- Responsible Investment implications.

Ongoing Management Costs

7. Both management fees and transition costs need to be considered.

Transition costs

8. As far as possible we would hope to transfer holdings rather than sell and repurchase to minimise transition costs. LGPS Central would arrange for a Transitions Manager and a Transitions Adviser to manage the transition. If our portfolio remained with Kames transition costs would be avoided.

Quality and performance

9. Quality considerations relate to performance, reporting, and levels of service.

Risk to Service Delivery

10. All investment managers potentially involved in managing funds within this portfolio are well established and FCA regulated.

Market influence and Responsible Investment

11. There are no voting rights associated with corporate bonds, but all managers assess ESG standards as part of their analysis of investments. It is not considered that the differences are significant enough to influence the investment decision.

Related issues

12. Our current fixed income portfolio includes gilts. In the event that our corporate bonds transferred to the LGPS Central fund we would still require somebody to manage our gilts investments. Both Kames and LGPS Central have offered to manage our gilts.

Responsibility for decision

13. It is the Pension Fund Committee's responsibility to appoint Fund Managers for portfolios and to set asset allocation. These key decisions need to be taken by the Pension Fund Committee. As this investment relates to (virtually) a whole portfolio within the fund, this is a Pension Fund Committee decision. Members should note that future investments in particular subfunds through LGPS Central, within the agreed asset allocation will be the responsibility of officers.

Other Options Considered

14. Retaining our current investment manager. Despite the saving in transition costs, this was felt not to be consistent with the spirit of pooling.

Reason/s for Recommendation/s

15. In order for pooling to be successful for both partner funds and ourselves it is important that we participate in Pool funds where these are suitable to deliver our investment objectives unless there is a significant reason why not. Details of the comparisons between the two managers are set out in the appendix. Overall there is no significant reason not to transfer our corporate bonds to the LGPS Central fund. LGPS Central will also manage our gilts on a discretionary mandate as this was the lowest cost option.

Statutory and Policy Implications

16. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications
There will be costs of transition and rebalancing. These will be managed to keep them as low as possible.

This transfer will help to realise the savings to be delivered as a result of Pooling.

RECOMMENDATION/S

1) The corporate bonds within the fixed income portfolio be transferred to the LGPS Central Global Active Investment Grade Corporate Bond Multi Manager fund.

2) The gilts held within the current portfolio will be managed for us by LGPS Central on a discretionary mandate.

Nigel Stevenson
Service Director for Finance, Procurement & Improvement

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments (SLB 18/04/2019)

17. Pension Fund Committee is the appropriate body to consider the content of this report.

Financial Comments (TMR 16/04/2019)

18. The financial implications are described within the report and the appendix.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- ‘None’

Electoral Division(s) and Member(s) Affected

- ’All’