

KENT COUNTY COUNCIL

PENSION FUND COMMITTEE

MINUTES of a meeting of the Pension Fund Committee held in the Council Chamber, Sessions House, County Hall, Maidstone on Wednesday, 29 March 2023.

PRESENT: Mr N J D Chard (Vice-Chairman in the Chair), Mr P Bartlett, Mr P Cole, Ms M Dawkins, Mr P Doust, Mr J P McInroy, Mr S Sim, Mr P Stepto, Mr S Webb and Mr J Wright.

ALSO PRESENT: Mr P J Oakford, Mr R J Thomas and Mr T English

IN ATTENDANCE: Ms Z Cooke (Corporate Director of Finance), Mr N Buckland (Head of Pensions and Treasury), Mr J Graham (Pension Fund Treasury and Investments Manager), Mrs C Chambers (Pensions Administration Manager), Mr S Tagg (Senior Accountant - Employer Governance and Compliance) and Mr M Dentten (Democratic Services Officer).

UNRESTRICTED ITEMS

112. Membership

(Item 1)

The Vice Chairman paid tribute to Mr Dan Daley, who had recently passed away. He read a statement on behalf of the Chairman which acknowledged Mr Daley's 22 years of service on the committee, including time as its Vice Chairman, and his contributions to the committee's stewardship of the Kent Pension Fund.

It was noted that Mr Simon Webb had replaced Mrs Cole on the committee.

113. Apologies and Substitutes

(Item 2)

Apologies for absence were received from Mr Simkins and Cllr Thorne.

114. Declarations of interest by Members in items on the agenda for this meeting

(Item 3)

1. In relation to item 16, Mr Bartlett declared that he was employed by the Bank of New York Mellon, the parent company of Insight which was involved with the Fund's equity protection, he agreed not to take part in the debate or decision making on the item.
2. Mr Webb and Mr Doust declared that they were in receipt of a Kent LGPS pension.

115. Minutes of the meeting held on 8 December 2022

(Item 4)

RESOLVED that the minutes of the meeting held on 8 December 2022 are correctly recorded and that they be signed by the Chairman.

116. Committee Work Programme and Action Log

(Item 6)

1. Mr Buckland introduced the committee's work programme and action log. He noted that the Kent Fund's Investment Strategy was planned to be the committee's main focus for the forthcoming meetings.
2. In response to a question from the Vice Chairman, Mr Buckland agreed to circulate information on the Fund's abatements policy following the meeting.

RESOLVED to note the work programme for 2023/24 and the updated action log.

117. Fund Employer Matters

(Item 7)

1. Mr Tagg introduced the report which provided information on Fund employers for the 9 months ending 31 December 2022. He highlighted the strong contributions performance achieved by the Fund, noting that 95% of contributions had been met every month from April to December 2022, with the exception of October 2022.

RESOLVED to note the report and to resolve to agree:

- a) to the admission to the Kent Pension Fund of Cater Link Ltd re Future Schools Trust;
- b) that the Kier surplus is allocated to KCC's notional share of the Fund;
- c) that the Sopra Steria surplus is allocated to Folkestone and Hythe District Councils' notional share of the Fund;
- d) that the Fund writes to DLUHC asking for an update on the matter of deemed employer status;
- e) that the Chairman may add recommendations a) to d) to the Record of Decision at the end of today's meeting; and
- f) that once legal agreements have been prepared for a) above the Kent County Council seal can be affixed to the legal documents.

118. Actuarial Valuation results

(Item 8)

Roisin McGuire (Barnett Waddingham) was in virtual attendance for this item.

1. Mrs McGuire gave a presentation. The contents of the presentation included: whole Fund results, with the funding level increasing from 98% in 2019 to 102% in 2022; key financial assumptions, including pension increases (CPI), salary increases and the discount rate; challenges, comprising high inflation, market volatility, the pandemic's mortality impact and climate risk; regulatory considerations, including Section 13 and McCloud; and the planned work to 2025, which comprised member data checks, funding position updates, the monitoring of external factors and employer engagement.

2. The Vice Chairman thanked Mrs McGuire for her presentation and commended Barnett Waddingham for their Actuarial Valuation, assistance and for informing the committee's considerations.

RESOLVED to note and comment on the outcomes of the 2022 Actuarial Valuation.

119. Funding Strategy Statement

(Item 9)

1. Mr Graham provided a verbal overview of the Funding Strategy Statement. He emphasised the importance of the policy as a key component of the Fund's valuation process. He drew members' attention to the changes made to the proposed Statement, which included a revised approach to calculating cessation, a self-insurance arrangement to cover ill-health retirement and death-in-service benefits for all individual employers who were not a government body and no discount will be offered in exchange for early payment of either primary or secondary employer contributions.
2. Following a question from a member on the cessation methodology, Mr Graham explained that gilt yields had been used to judge residual liabilities, the need to be prudent was emphasised with it noted that volatile gilt yield could lead to unreasonable responses. He stated that the proposed methodology would be more equitable for employers.
3. Concerning the level of employer engagement received from the consultation on the proposed revised Statement, Mr Graham gave assurance that methods for improving response volumes would be investigated as part of Barnett Waddingham's review of employer engagement.
4. A member asked whether the revised Statement would mean that employers would need to make greater contributions. Mr Graham explained that employers would not necessarily need to make greater contributions and that previously when gilt yields were low it had made it difficult for employers, whilst the new approach would reduce volatility.

RESOLVED to note the report and to:

- a) agree the revised Funding Strategy Statement at Appendix 1;
- b) agree the revised Contribution Review Policy at Appendix 2; and
- c) agree the revised Deferred Debt and Debt Spreading Agreement Policies at Appendix 3.

120. Pensions Administration

(Item 10)

1. Mrs Chambers introduced the report which updated members on the administration of the Kent Local Government Pension Scheme (LGPS) for from 1 November 2022 to 31 January 2023, including performance; recruitment; Guaranteed Minimum Pension (GMP) reconciliation; the pensions dashboard; changes to the CARE revaluation date; internal audit; the communications policy; judicial review on the cost cap process and McCloud; as well as the impact of the 2023 Spring Budget on pension taxation. Concerning the case volume, she highlighted the 68% increase

over the previous quarter, with phase two of the recruitment campaign underway to address the increase in demand. Addressing the internal audit of pensions administration, she informed members that a draft report had been received and that the final report would be presented to the committee in due course.

RESOLVED to note the report.

121. McCloud Remedy Update

(Item 11)

1. Mrs Chambers presented the report which outlined the planning undertaken for the McCloud Remedy and the options being considered to successfully implement the requirements of the legislation, including data collection, data validation, rectification and the anticipated impact on resources. She informed the committee that additional external support would be required to deliver the large amount of data collecting, validating and uploading which would be required. She warned members that if the addition burden was delivered with existing resources, that it could lead to more than a two-year delay to the Pension Administration service improvement journey. She concluded by explaining that a service specification had been written and was being reviewed for procurement, under the banner of a wider data rectification programme.

RESOLVED to note the report.

122. Report from the Pension Board

(Item 12)

1. The Vice Chairman gave thanks to the Chairman of the Pension Board, Mr Thomas, for his report.

RESOLVED to note the update from the Board.

123. Fund Position

(Item 13)

1. Mr Graham introduced the report which detailed the Fund's asset allocation and performance, including the Fund's value, as of 31 December 2022, which stood at £7.74bn, representing an increase of £94m over the quarter. He noted that the Fund's performance had been strong over the previous quarter, given continued market sensitivity, and that the Fund had outperformed previous value estimates.
2. Concerning the Fund's outlook, a member commented that an approach which recognised that there would be no return to previously normal market conditions should be considered, given that there was limited consensus on the how long it would take for the market to normalise.

RESOLVED to note the Fund's asset allocation and performance as of 31 December 2022.

124. Investment Manager Monitoring

(Item 14)

1. Mr Graham introduced the report which summarised the governance arrangements currently in place to provide oversight and monitoring of the Fund's appointed investment managers as well as the proposed establishment of an investment manager monitoring strategy. He explained that the proposed strategy would ensure a consistent approach to investment manager oversight. He confirmed that the proposal was for two investment manager meetings per quarter and that meeting dates would be circulated to members in the near future.
2. The Vice Chairman stressed the importance of the committee building strong relationships with investment managers and actively challenging their performance. He noted that the proposed approach had been adopted by many other pension fund committees.
3. Following a question from a member on the investment manager meeting arrangements, Mr Graham confirmed that the initial plan was for a mixture of in-person and virtual meetings, which would be reviewed in due course.

RESOLVED to note the report and to endorse the monitoring strategy set out at section 3.

125. Governance, Policies and Training

(Item 15)

1. Mr Buckland provided a verbal overview of the report which addressed the progress made with the implementation of the recommendations arising from the Barnett Waddingham review and the current position of the Fund's policies in line with LGPS regulations and the Pension Regulator code of practice. He introduced Mrs Emma Green, who had been appointed to lead on the governance transformation and development of the member training plan, and explained that she would provide the committee with progress updates going forward.
2. The Vice Chairman commented that a structured training plan, which officers were developing, should align with the Fund's investment strategy and approach to monitoring the performance and governance of the Fund.

RESOLVED to note the report and approve the Fund's Administration Strategy for publication and implementation from 1 April 2023.

Motion to exclude the press and public for exempt business

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

EXEMPT BUSINESS

Open access to minute

126. Investment Strategy (Item 16)

Robbie Sinnott (Mercer) was in virtual attendance for this item.

1. Mr Graham introduced the report which detailed the Fund's Investment Strategy Statement, considered related issues and made recommendations regarding the Fund's asset allocation.
2. Mr Sinnott gave a presentation. The contents of the presentation included key investment strategy considerations, involving risk management, reviewing the equity portfolio and alternative portfolios as well as the next steps in the investment strategy development process.
3. A member asked whether there was a suggested approach to property asset investment at the current stage in the development of the investment strategy. Mr English informed members that Mercer would provide an assessment of market conditions, which would include long term trajectories, at the committee's next meeting in June.
4. Mr Buckland reassured the committee that their comments would feed directly into the development of the investment strategy.

RESOLVED to note the report and:

- a) agree that the Fund's asset allocation should not be changed in accordance with the Fund's rebalancing policy;
- b) note the latest \$75m annual commitment to the HarbourVest Global Fund programme (section 6);
- c) note the update on the investment strategy review (section 7); and
- d) note the progress update on the extension of the equity protection programme (section 8).

127. Responsible Investment Update (Item 17)

1. Mr Graham introduced the report which provided an update on the work of the Responsible Investment Working Group, the Fund's securities lending activity, the Fund's investment managers' voting activity and their engagement with the companies in which they were invested on the Fund's behalf.
2. Mr Buckland agreed to circulate a glossary of terms on responsible investment to the committee following the meeting.

RESOLVED to note the report and approve the Responsible Investment strategy and work plan.

128. Administration System procurement

(Item 18)

1. Mr Buckland provided a verbal overview of the report which set out the proposal to award a contract for the Pension Administration System. He explained that KCC as the Administering Authority for the Kent Pension Fund had a statutory responsibility to provide the proper administration of the LGPS for all members of the Kent Pension Fund. He confirmed that the existing contract expired on 30 April 2023 and that legal and procurement advice had been received ahead of the proposal coming to committee for its decision.
2. Following questions from the committee, Mr Buckland provided further information on the other alternative Pensions Administration Software providers in the market and the advantages of the recommended option.

RESOLVED to note the report and:

- a) approve the award of a contract in accordance with Regulation 32 of the Public Contract Regulations (the negotiated procedure), for the Pensions Administration Software contract to Heywood Pension Technologies Limited for a contract term of 5 years for a maximum contract value of £3,907,902 plus indexation.
- b) delegate to the Corporate Director of Finance, the agreement of the final terms of the contract with Heywood Limited and to authorise the execution of the same by Kent County Council.

129. ACCESS Update

(Item 19)

RESOLVED to note the report.

130. Employer Matters

(Item 20)

1. Mr Buckland and Mr Tagg introduced the report and updated the committee on recent key developments concerning Sevenoaks Leisure Limited's exit from the Fund.
2. A member asked a question on cessation costs which was answered by Mr Tagg.
3. Mrs Cooke informed the committee that government had announced £63m of funding for leisure centres in the 2023 Spring Budget. She agreed to keep members updated on the viability of the funding once more detail was available.

RESOLVED to note the report and to resolve to agree that officers continue to work with Sevenoaks Leisure Limited, the Fund actuary and Invicta Law to ensure a smooth exit from the Fund.

131. Business Plan

(Item 21)

1. Mr Buckland introduced the proposed Business Plan 2022-23 to 2024-25 and budget for 2023-24 for the Kent Pension Fund. He noted that whilst the Plan and

budget would be presented and approved on an annual basis, that brief interim updates would be provided to the committee on a more regular basis to support their monitoring.

2. Members asked a series of questions on fund manager fees; anticipated contracts for the forthcoming year; recruitment; and member training, which were answered by the officers in attendance.

RESOLVED to approve the Business Plan 2022-23 to 2024-25 and budget for 2023-24 for the Kent Pension Fund.

132. Risk Register *(Item 22)*

1. Mr Buckland introduced the report, about which there were no questions.

RESOLVED to review and comment on the updated Risk Register.