

# Public Document Pack



## NOTICE OF MEETING

<b>Meeting</b>	Hampshire Pension Fund Panel and Board
<b>Date and Time</b>	Friday, 29th September, 2017 at 10.00 am
<b>Place</b>	Mitchell Room, EII Podium, Winchester
<b>Enquiries to</b>	members.services@hants.gov.uk

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

## FILMING AND BROADCAST NOTIFICATION

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

## AGENDA

### 1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

### 2. DECLARATIONS OF INTEREST

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

### 3. CONFIRMATION OF MINUTES (NON-EXEMPT) (Pages 5 - 8)

To confirm the Minutes of the meeting held on 7 July 2017.

### 4. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make.

**5. INVESTMENTS - IMPLEMENTATION OF THE MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MIFID II) (Pages 9 - 18)**

To consider the report of the Director of Corporate Resources-Corporate Services outlining the impact of the implementation of the Markets in Financial Instruments Directive (MiFID).

**6. GOVERNANCE: PENSION FUND COSTS 2016/17 (Pages 19 - 24)**

To consider a report from the Director of Corporate Resources-Corporate Services providing an overview of the costs of managing the Pension Fund in 2016/17.

**7. EXCLUSION OF THE PRESS AND PUBLIC**

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

**8. CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING (Pages 25 - 26)**

To confirm the exempt minutes of the meeting held on 7 July 2017.

**9. GOVERNANCE: PENSION FUND COSTS 2016/17- EXEMPT APPENDIX (Pages 27 - 30)**

To consider an exempt appendix from the Director of Corporate Resources-Corporate Services on the costs of managing the Pension Fund in 2016/17.

**10. GOVERNANCE: PROVISION OF ADVICE TO THE PANEL AND BOARD (Pages 31 - 38)**

To consider a report of the Director of Corporate Resources-Corporate Services outlining the current arrangements for providing external advice to the Pension Fund Panel and Board and seeking the Panel and Board's views on whether any changes should be made to improve the advice and support available.

**11. INVESTMENT - INVESTMENT UPDATE** (Pages 39 - 52)

To consider an exempt report of the Director of Corporate Resources - Corporate Services updating the Panel and Board on the Pension Fund's investments since the last meeting of the Pension Fund Panel and Board on 7 July 2017.

**12. INVESTMENTS - ALTERNATIVE INVESTMENTS PORTFOLIO UPDATE** (Pages 53 - 160)

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

**ABOUT THIS AGENDA:**

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

**ABOUT THIS MEETING:**

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

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

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AT A MEETING of the PENSION FUND PANEL AND BOARD of the County Council held at The Castle, Winchester on Friday 7 July 2017.

Chairman:  
p Councillor M. Kemp-Gee

Elected members of the Administering Authority (Councillors):

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

Employer Representatives (Co-opted members):

a Councillor P. Giddings (Test Valley Borough Council)  
p Councillor M. Chaloner (Southampton City Council)  
a Mr D. Robbins (Churchers College)

Scheme Member Representatives (Co-opted members):

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

Independent Adviser:

p C. Dobson

#### 14. **BROADCASTING ANNOUNCEMENT**

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

#### 15. **APOLOGIES FOR ABSENCE**

Mr Robbins, Mr Wood and Cllr Mason sent their apologies.

#### 16. **DECLARATIONS OF INTEREST**

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3, Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Non-Pecuniary interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, considered whether it was appropriate to

leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

17. **CONFIRMATION OF MINUTES**

The minutes of the Pension Fund Panel and Board held on 16 June 2017 were confirmed.

18. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman made a short statement in memory of Cllr Frank Pearce, a former county council deputy member of the Panel and Board, who sadly had recently passed away.

The Chairman welcomed Cllr Mark Chaloner, who had been appointed as a full member of the Panel and Board, as an employer representative for the unitary authorities. Cllr Hugh Mason would now be the substitute employer representative member.

19. **GOVERNANCE - INTERNAL AUDIT REPORT & OPINION 2016/17**

The Panel considered a report of the Director of Corporate Resources (item 5 in the Minute Book) providing the Pension Fund Panel and Board with the Chief Internal Auditor's opinion on the adequacy and effectiveness of internal control of the Pension Fund. The Chief Internal Auditor's opinion was that 'substantial assurance' can be placed on the County Council's framework of control for the Pension Fund.

RESOLVED:

- (a) That the Chief Internal Auditor's annual report and opinion statement for 2016/17 was accepted.

20. **GOVERNANCE - PENSION FUND DRAFT ANNUAL REPORT 2016/17**

The Panel and Board considered and noted a report of the Director of Corporate Resources (item 6 in the Minute Book) containing the Pension Fund's Draft Annual Report, including the Pension Fund's Accounts for the year ending 31 March 2017. The Accounts and Annual Report are subject to external audit, which is currently taking place.

RESOLVED:

- (a) That the Annual Report for 2016/17 be approved for publication, and that the Director of Corporate Resources be authorised to make any necessary minor amendments prior to publication.

21. **GOVERNANCE – PENSION FUND PANEL AND BOARD TRAINING IN 2017/18**

The Panel and Board considered a report of the Director of Corporate Resources (item 7 in the Minute Book) setting out the proposed training arrangements for members of the Pension Fund Panel and Board in 2017/18. In particular members noted the importance of training for Panel members in their role in the governance of the Pension Fund and how the training programme is underpinned by the Training Needs Analyses that the members complete.

RESOLVED:

(a) That the 2016/17 training programme was approved, noting that it may be adapted based on changing circumstances, and remainder of the report was noted.

22. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED:

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

23. **MINUTES OF PREVIOUS MEETING HELD ON 16 JUNE 2017 (EXEMPT APPENDIX)**

The exempt minutes of the Pension Fund Panel and Board held on 16 June 2017 were confirmed.

24. **INVESTMENTS – INVESTMENT STRATEGY REVIEW**

The Panel and Board noted the exempt appendix from the Director of Corporate Resources (Item 10 in the Minute Book) detailing the Fund's investment strategy review. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

25. **INVESTMENTS – PROPERTY PORTFOLIOS UPDATE**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 11 in the Minute Book) updating the Panel and Board on the Fund's property portfolios. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

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## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Pension Fund Panel and Board
<b>Date:</b>	29 September 2017
<b>Title:</b>	Investments: Implementation of the Markets in Financial Instruments Directive (MiFID II)
<b>Report From:</b>	<i>Director of Corporate Resources – Corporate Services</i>

**Contact name:** Gemma Farley

**Tel:** 01962 847540

**Email:** gemma.farley@hants.gov.uk

#### 1. Executive Summary

1.1. This report outlines the impact of the implementation of the Markets in Financial Instruments Directive (MiFID II) and in particular the risk to the investment strategy if the administering authority were to become a retail client on 3 January 2018. This report recommends that the Pension Fund Panel and Board agrees that elections for professional client status should be made on behalf of the Pension Fund.

#### 2. Background

2.1. The European Union, through its Market in Financial Instruments Directive (MiFID II), is aiming to improve the functioning of financial markets in light of the financial crisis and to strengthen investor protection. This changing of rules will impact how local authorities can access regulated financial services. Although the UK has voted to leave the EU, MiFID II will still be implemented in the UK on 3 January 2018 for three reasons. Firstly, the UK's residents remain members of the EU and subject to its laws until the UK leaves; secondly, the UK government is in favour of strengthening investor protection; and thirdly, UK firms will wish to continue providing financial services across the EU after the UK has left the EU, so will need to comply with equivalent regulations.

2.2. The MiFID regulations are issued by the European Union and place requirements on market participants such as Pension Funds. The first set of regulations (MiFID I) was introduced in 2008, and a second set of regulations (MiFID II) comes into force on 03 January 2018. Under MiFID I Hampshire County Council, including in its capacity of managing the Pension Fund, has been automatically categorised as a 'per se professional client' for MiFID-scope business.

2.3. Following the introduction of MiFID II, firms will no longer be able to categorise a local authority as a 'per se professional client'; instead all local authorities, including in their capacity of managing Pension Funds, must be classified as

'retail clients' unless they are opted up by firms to an 'elective professional client' status.

- 2.4. Furthermore the Financial Conduct Authority (FCA) confirmed in July 2017, that it has exercised its discretion to adopt opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

### **3. Retail Client Status**

- 3.1. A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat local authorities the same way they do non-professional individuals and small businesses. That includes a raft of protections ensuring that investment products are suitable for the customer's needs, and that all the risks and features have been fully explained. This provides a higher standard of protection for the client, but involves more work and cost for both the firm and client, for the purpose of proving to the regulator that all such requirements have been met.
- 3.2. Such protections would come at the price of local authorities, including in any capacity of managing LGPS funds, not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to authorities. Many institutions currently servicing the LGPS are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.
- 3.3. All of the Fund's investment managers and its custodian, J.P. Morgan, have confirmed that they would not be able to retain the Fund as a client, managing its investments in their current form.
- 3.4. Even if the institution secures the ability to deal with retail clients, the range of instruments it can make available to the client will be limited to those defined under FCA rules as 'non-complex' which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers will no longer be able to even discuss certain asset classes and vehicles with the authority as a retail client.

### **4. Election for Professional Client Status**

- 4.1. Opting up to professional status will allow continued access to the current asset classes the Fund is invested in, without the increased fees that retail asset classes demand. Opting up will mean the Fund will not be able to take advantage of the increased protections available to retail clients (retail protections are available at Appendix 1 – this list was provided by the Local Government Association and represents protections for all different types of investment that LGPS funds invest in). However, this will not be a change from the current status, as these protections are not currently afforded to professional clients.
- 4.2. Local authorities, on behalf of their management of LGPS funds, will be permitted to "opt-up" from retail to professional client status, providing they meet the following criteria:

- the firm has assessed that the person [i.e. the Pension Fund Panel and Board] authorised to carry out transactions on the local authority's behalf has the expertise, experience and knowledge to give reasonable assurance in light of the nature of the transactions or services envisaged, that they are capable of making their own investment decisions and understanding the risks involved;
- the size of the local authority's investment portfolio (including cash deposits) [i.e. the total market value of the Pension Fund's assets] exceeds £10 million; and
- at least one of the following is true:
  - the local authority has carried out transactions, in significant size, on the relevant market at an average frequency of ten per quarter over the previous four quarters;
  - the person authorised to carry out transactions on behalf of the local authority works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the services envisaged; or
  - the local authority is a Local Government Pension Scheme administering authority and is acting in that capacity (this has been added following the original consultation).

4.3. The election to professional status must be completed with all financial institutions prior to the change of status on 3 January 2018. Failure to do so would result in the financial institution having to take 'appropriate action' which could include a termination of the relationship at a significant financial risk to the authority.

4.4. The Scheme Advisory Board and the Local Government Association have worked with industry representative bodies including the Investment Association to develop a standard opt-up process with letter and information templates, which should enable a consistent approach to assessment and prevent funds from having to submit a variety of information in different formats.

4.5. Within this template, the Fund will be required to complete information regarding the training, knowledge and advice received by the Pension Fund Panel and Board members, to enable the financial institutions to assess that decision-makers have the expertise, experience and knowledge to give reasonable assurance in light of the nature of the transactions or services envisaged, that they are capable of making investment decisions and understand the risks involved. The Training Needs Analysis (TNAs) and records of training completed by members may therefore become evidence that the Pension Fund requires and relies upon as part of the opting up process. The identification and participation in Panel and Board training is therefore of even further importance. Currently there are two members of the Panel and Board still to complete their TNA for 2017.

4.6. Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A Fund may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no

intention to use the institution again once the current relationship has come to an end. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.

- 4.7. Funds are not required to renew elections on a regular basis but will be required to review the information provided in the opt-up process and notify all institutions of any changes in circumstances which could affect their status.

## **5. The ACCESS Pool**

- 5.1. Regarding imminent LGPS pooling, the Fund will need to opt up with ACCESS' Operator in order to access the full range of services and sub-funds on offer. ACCESS' Operator will not need to opt up with financial service organisations, as the Operator will be a regulated financial company, and so MiFID regulations do not apply to this relationship.
- 5.2. Elections to professional status will be needed for every financial institution that the Fund uses outside of the pool, both existing and new, together with a continuing review of all elections. If all new purchases are made via fund structures within ACCESS then no new elections will be required, only an ongoing review of the elections made with the pool and any legacy external institutions, the number of which would reduce as assets are liquidated and cash transferred.

## **6. Next Steps**

- 6.1. In order to continue to effectively implement the Fund's investment strategy after 3 January 2018, applications for election to be treated as a professional client should be submitted to all financial institutions with whom the administering authority has an existing or potential relationship in relation to the investment of the Fund.
- 6.2. This process should commence as soon as possible to ensure completion in good time, avoiding the need for appropriate action to be taken by institutions in relation to the Fund's investments.
- 6.3. The Director of Corporate Resources should be granted the necessary delegation to make applications on the Fund's behalf and to determine the nature of the application or either full or single service basis.

## **7. Recommendations**

- 7.1. That the Panel and Board notes the potential impact on investment strategy of becoming a retail client with effect from 3 January 2018.
- 7.2. That the Panel and Board agrees to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.
- 7.3. In electing for professional client status, the Panel and Board acknowledges and agrees to forgo the protections available to retail clients attached as Appendix 1.

- 7.4. That the Panel and Board note the importance of their identification and participation in training in the Pension Fund securing elected professional client status
- 7.5. That the Panel and Board agrees to approve delegated responsibility to the Director of Corporate Resources for the purpose of completing the applications and determining the basis of the application as either full or single service.

**CORPORATE OR LEGAL INFORMATION:****Links to the Strategic Plan**

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

**Section 100 D - Local Government Act 1972 - background documents**

**The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)**

DocumentLocation

None

## **IMPACT ASSESSMENTS:**

### **1. Equality Duty**

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

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

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

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

#### **1.2. Equalities Impact Assessment:**

Equality objectives are not considered to be adversely affected by the proposals in this report.

### **2. Impact on Crime and Disorder:**

The proposals in this report are not considered to have any direct impact on the prevention of crime.

### **3. Climate Change:**

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts

No specific impact.

## **Warnings - loss of protections as a Professional Client**

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

### **1. Communicating with clients, including financial promotions**

As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

### **2. Information about the firm, its services and remuneration**

The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

(A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and

(B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;

(C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

(D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

### **3. Suitability**

In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

#### 4. Appropriateness

For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

#### 5. Dealing

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

#### 6. Reporting information to clients

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

#### 7. Client reporting

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

#### 8. Financial Ombudsman Service

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

#### 9. Investor compensation

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

#### 10. Exclusion of liability

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

#### 11. Trading obligation

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

#### 12. Transfer of financial collateral arrangements

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

#### 13. Client money

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Pension Fund Panel and Board
<b>Date:</b>	29 September 2017
<b>Title:</b>	Governance: Pension Fund Costs 2016/17
<b>Report From:</b>	Director of Corporate Resources – Corporate Services

**Contact name:** Andrew Bouflower

**Tel:** 01962 847407

**Email:** andrew.bouflower@hants.gov.uk

#### 1. Executive Summary

- 1.1. This report provides an overview of the costs of managing the Pension Fund in 2016/17.

#### 2. Background

- 2.1. There are a variety of costs that are incurred in the management of the Pension Fund, which are disclosed in the Pension Fund's annual report and accounts under the following three categories:
- Investment management costs – the cost of managing the Fund's assets, which includes fees paid to the Fund's investment managers and its custodian. This includes the fees that are not paid directly for pooled and other investments, such as alternative investments like Hedge Funds and Private Equity that are netted off against investment income.
  - Administration expenses – all activities the Administering Authority must perform to administer entitlements and provide members with scheme and benefit entitlement information.
  - Oversight and governance – a new category which includes the costs of accounting for and monitoring the Pension Fund, plus the additional professional advice and support that is required by the Fund.

#### 3. Total Fund management costs

- 3.1. The total costs of managing the Pension Fund are shown in the table below and also as a percentage of the average value of the Pension Fund in 2016/17 (2015/16 and 2014/15 costs are shown as a comparison):

	2016/17		2015/16		2014/15	
	£000	%	£000	%	£000	%
Investment management	28,496	0.49	17,855	0.35	19,403	0.40
Administration	1,920	0.03	1,800	0.03	2,342	0.05
Oversight and governance	628	0.01	775	0.01	553	0.01
<b>Total</b>	<b>31,044</b>	<b>0.53</b>	<b>20,430</b>	<b>0.39</b>	<b>22,298</b>	<b>0.46</b>

3.2. The remainder of this report provides further detail on the three elements of the Pension Fund's management costs.

#### 4. Investment management expenses

4.1. The Fund's business plan states that, as part of the Panel and Board's role of making sure that its investment managers are providing value for money, it should review each year:

- the level of management fees paid to its investment managers in the previous financial year
- the level of transaction costs, in particular brokerage and stamp duty, incurred in the previous financial year.

4.2. Fees paid to the investment managers in 2016/17 are summarised the confidential appendix. Fees are split into three categories:

- Direct – fees paid to investment managers as a percentage of the portfolio they manage according to their investment management agreement. Higher fees are payable to the 'active' managers who are aiming for high performance returns, with portfolios run on a passive basis attracting the lowest fees.
- Indirect – the cost of broker commissions and any stamp duty (taxes) incurred in the purchase and sale of equities and bonds by the Fund's active managers, plus the costs incurred in the management of the Fund's direct property portfolio, such as legal and professional fees for managing tenants' leases, surveyors costs and the cost of any property repairs and maintenance that fall on the Fund.
- Pooled funds – fees applied to investments that the Fund holds, such as pooled and alternative investments. These fees will be the funds recovering their own management and transaction costs, plus performance fees in some instances. These costs are netted off against the investment income that these investments return to the Fund, so no costs are directly paid by the Fund. These costs are typically quite high due to the nature of Hedge Fund and Private Equity investments, but are considered as part of the overall investment decision for every investment.

4.3. The cost of investment management increased in 2016/17 due to the following factors:

- Alternative investments – a standard fee structure for a private equity/infrastructure/hedge fund investment is "2 and 20". This means a

2% management fee, charged on commitments, and a 20% performance fee, or share of any profits. During 2016/17 the managers of the alternative investment portfolios have been making several new commitments, and consequently the fees charged has increased, as fees are charged on the full amount committed as soon as the commitment is made, even if funds are yet to be drawdown. In addition, some of the individual funds within the hedge fund portfolio made quite sizable returns for 2016/17, even though the portfolio as a whole only made a modest return of 3.5% (gross USD return), and those funds will have charged performance fees for the period.

- Transition – in 2016/17 the Panel and Board agreed to terminate Aberdeen’s portfolio of global equities and replace this with three new portfolios managed by Acadian, Baillie Gifford and Standard Life. This was a significant transition of £939m of assets, the vast majority of which had to be sold in order construct the portfolios for the three new managers. The sale and purchase of the new assets incurred transaction costs of £797,000, which was 0.08% of the value of the transition, and has added just over 0.01% to the Pension Fund’s overall costs in 2016/17.

## **5. Administration**

- 5.1. The cost of administration represents the cost of the staff and systems required to record the pension benefits accrued by active and deferred scheme members, and pay pensioners once they retire. The cost of pension administration is often described as a cost per member. For Hampshire’s 160,000 scheme members this figure is £12.00. This figure is one of the lowest for an LGPS fund, which is in line with Hampshire being in the top ten largest funds.
- 5.2. The performance of the administration of the Pension Fund is regularly reported to the Panel and Board giving more detail on the administration of the Fund. Administration costs have slightly increased from 2015/16 mainly as a result of higher IT costs, which were reduced in 2015/16 as a result of the new contract that was implemented for the Pensions Administration system.

## **6. Governance and oversight**

- 6.1. Governance costs include the costs of staff that produce the Fund’s accounts, monitor the Fund’s investment managers and support the Panel and Board. In addition it includes the various professional services, such as actuaries, lawyers, consultants and advisors, which are required in supporting the Fund’s activities and the Pension Fund’s share to the external costs of the creating the ACCESS pool.
- 6.2. Governance costs reduced in 2016/17 due to reductions in staff costs and the cost of external services which reduced as a result of lower external consultancy costs.

**7. Recommendation**

- 7.1. That the total cost of managing the Pension Fund for 2016/17 and the appointment of UBS as the preferred supplier for passive investment for the ACCESS pension funds be noted.

**CORPORATE OR LEGAL INFORMATION:****Links to the Strategic Plan**

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

**Other Significant Links**

<b>Links to previous Member decisions:</b>	
<u>Title</u>	<u>Date</u>
<b>Direct links to specific legislation or Government Directives</b>	
<u>Title</u>	<u>Date</u>

**Section 100 D - Local Government Act 1972 - background documents**

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

## **IMPACT ASSESSMENTS:**

### **1. Equality Duty**

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

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

1.2. **Due regard in this context involves having due regard in particular to:**

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

1.3. **Equalities Impact Assessment:**

1.4. Equality objectives are not considered to be adversely affected by the proposals in this report.

### **2. Impact on Crime and Disorder:**

2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

### **3. Climate Change:**

a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.

By virtue of paragraph(s) 3, 5 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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

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