

## **PENSION BOARD**

### **Report of the County Treasurer**

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.
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- Recommendations:**
- (1) That the minutes of the Pension Board meeting held on 2<sup>nd</sup> July be noted.**
  - (2) That the Committee advise whether they wish to review the Custodian's performance statistics on a quarterly basis.**
  - (3) That the Committee approve the arrangements for monitoring the performance of the Independent Advisor.**

#### **1. Introduction**

- 1.1. The first meeting of the Devon Pension Board was held on 2<sup>nd</sup> July. The minutes of the meeting are attached for information as Appendix 1 to this report.
- 1.2. A key part of the Board's role is to review and scrutinise the performance of the Pension Fund, and help ensure that the Devon Pension Fund is managed and administered effectively and efficiently and ensure that it complies with the code of practice on the governance and administration of public service pension schemes issued by the Pensions Regulator. In fulfilling that role there may be issues that the Board wishes to bring to the attention of the Investment and Pension Fund Committee, where it believes more focus is required or where changes need to be made.
- 1.3. The purpose of this report is therefore to bring to the Committee those issues that were raised by the Pension Board that warrant attention.

#### **2. Custodian Performance**

- 2.1. The Pension Board considered the Annual Audit Report and looked at more detailed information on each of the individual audits. One of the recommendations contained in the audit of custodian services was that the Investment and Pension Fund Committee should receive quarterly performance information on the services provided by the custodian. The Board requested that this should be considered by the Committee.
- 2.2. The current practice is that quarterly performance reviews are held between the Fund's officers and the custodian. It has been considered that these reviews are operational in nature, and that reports on custodian performance would only be brought to the Committee on an exceptions basis, when a significant issue or concern arose.
- 2.3. The key indicators in relation to the custodian's performance are as follows:

- Valuation reporting – the custodian provides a month end valuation of all the Fund’s assets, which should be produced within 15 business days from the month end.
- Settlement rate – settlement of all purchases and sales of assets instructed by the Fund’s managers.
- Straight Through Processing (STP Rate) – the percentage of trades settled electronically with no manual intervention.
- Income collection – collection of dividend and coupon payments from the Fund’s investments
- Tax Reclaims – the reclaim of taxes from both HMRC and overseas tax authorities where the Fund has an entitlement.
- Corporate Actions – Where corporate actions (e.g. a rights issue) are announced by companies invested in, the time taken by the external managers concerned to elect whether to participate in the action.

2.4. A review meeting was held with Northern Trust on 24<sup>th</sup> August, and the performance statistics discussed are summarised in the following table:

**Custodian Performance**  
**Key Performance Indicators for the Quarter to 30 June 2015**

KPI Name	KPI Measure	Performance Range			Performance Achieved		
		Green	Amber	Red	April	May	June
Valuation Reporting	Business day valuation signed off	≤15	16	≥17	11	29	21
Settlement Rate	% of trades settled on time	>95%	92% to 95%	<92%	94.7%	96.6%	96.8%
STP Rate	% of trades processed by STP	>95%	92% to 95%	<92%	97.1%	96.8%	97.4%
Income Collection	% of income received on time	>95%	92% to 95%	<92%	98.0%	88.6%	100.0%
Tax reclaims	% of reclaims outside of standard	<10%	10% to 15%	>15%	0.0%	0.0%	0.0%
Corporate Actions	% of corporate actions notified within 24 hours	100%	90% to 99.99%	<90%	100.0%	100.0%	50.0%

2.5. For the most part Northern Trust’s performance is in line with what we would expect, and there are no significant issues of concern. The following issues were discussed:

- The delivery of valuation reports was late in both May and June. The issue related mostly to late notification of the current price for a couple of pooled funds, and the remainder of the valuation was completed by the target date.
- The Devon Fund benefits from contractual settlement, which means that Northern Trust credit the account for sums due on the settlement date regardless of whether the payment has been received. Therefore, although the April settlement rate was marginally below target and the income collection rate for May was below target, the late payments have had no detrimental impact on the Fund. The May income

collection rate was below target as a result of a number of receipts that were due on the May bank holiday dates being received a day late.

- While there are no tax reclaims for which Northern Trust are responsible that are outstanding outside of the standard time periods, there are outstanding tax reclaims outside of standard that are the responsibility of the previous custodian, JP Morgan. Officers are working with JP Morgan to ensure that outstanding tax reclaims are followed up.
- The June figure for corporate actions reflects two of four corporate actions during the month where the fund manager opted to take the default option. Where an investment manager chooses not to elect on an event and take the default option this is recorded as a late response.

2.6. The Committee are asked to consider whether they would want to review the custodian's performance statistics on a quarterly basis.

### **3. Independent Investment Advisor**

3.1. The Audit Report on the performance of the Fund Managers and the External Independent Advisor assessed the level of assurance as being of high standard. However, the report also highlighted the lack of a formal tender exercise having been undertaken prior to the Independent Advisor being appointed in 2010, and that there are currently no performance measures within the contract in place to monitor the performance of the Advisor. The Pension Board have asked that the County Treasurer provide clarity around the process used to appoint the Independent Advisor and any plans to implement performance monitoring in this area, to enable the Board to discuss any further action necessary at a future meeting.

3.2. The previous meeting of the Committee discussed the position of the Independent Advisor and resolved that the current arrangement in respect of the Independent Advisor be extended for a further year, and the position be reviewed again in June 2016. It would therefore make sense to review the contractual and procurement arrangements with respect to the position at that time.

3.3. Discussions have also taken place between the Chairman and officers with both Steve Tyson and John Arthur, the Managing Director of AllenbridgeEpic, about putting in place performance monitoring. Allenbridge regularly monitor the performance of their advisors and as part of that process John Arthur sat in on the recent manager review meetings. It is proposed that Allenbridge provide an appraisal form to enable the Fund to evaluate Steve Tyson's performance, and that the appraisal form should be completed by the County Treasurer in liaison with the Chairman of the Investment and Pension Fund Committee.

### **4. Risk Register**

4.1. The Pension Board also considered the Fund's risk register. Whereas in the past an officer has been shown as responsible only where further actions are planned in response to a risk, the Board has asked that each risk should have a named risk owner. This would make it clear that the named individual is responsible for managing the risk together with any planned further actions. This has been incorporated into the revised risk register that is the subject of a separate item on the agenda for this meeting of the Committee.

Mary Davis

Electoral Divisions: All  
Local Government Act 1972

List of Background Papers - Nil

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