

DORSET PENSION FUND

Governance Compliance Update

Pension Fund Committee on 27th November 2019

4th November 2019

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Contact

Peter Scales

Senior Adviser

+44 20 7079 1000

peter.scales@mjhudson.com

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1.0 Summary Observations

- I have reviewed the business and minutes of Committee and Board meetings and I am satisfied that good governance standards are being maintained and improved.
- The Pension Board has been operating effectively and in line with its responsibilities, which have been reviewed. Operational governance has also improved.
- I have reviewed the Annual Report for 2018-19 as reported to the Committee in September and I am satisfied that it is compliant with the regulatory requirements and reflects good practice.
- The new pooling arrangements (BPP) are continuing to evolve and assets are in a well-planned transition process through to 2021.
- Other issues developing nationally by MHCLG, the Scheme Advisory Board, and the Pensions Regulator should be monitored and responded to as and when appropriate.

2.0 Introduction

- 2.1 I last reported on the governance arrangements for the Dorset Pension Fund to the Committee on 22nd November 2018 and I have monitored the governance activities of both the Committee and the Board during the past year.
- 2.2 As I indicated to the Committee last year, the regulatory framework continues to develop and pressure continues on the administration arrangements. I have included some indicators of current developments of which the Committee should be aware.

3.0 Core business activity

- 3.1 Part of my governance review involves monitoring the reports and minutes of Committee meetings and of Board meetings. While this may give only a limited perspective on the activity and effectiveness of meetings, it does enable me to form the view that governance standards are being maintained and improved. From my limited experience, I believe these standards are at a high level and consistent with the other funds with which I am involved.

4.0 Review of the Annual Report

- 4.1 I have reviewed the content of the Annual Report and each of the policy documents contained within the Report, although I have not studied each policy document in detail as this is a function more for the Board. However, I found the documents overall to be clear and well written, and most importantly, compliant with the appropriate regulations.
- 4.2 The regulations require the Committee to have regard to CIPFA Guidance which was revised and reissued earlier in the year. In my view the Annual Report is compliant with the principal requirements of that guidance. I should add that the Dorset report is one of the best that I have reviewed this year.

5.0 Implementation of pooling arrangements

- 5.1 As I have indicated previously, the introduction of pooling arrangements represents a major change in the way LGPS funds are invested and I don't need to remind the Committee of the difficult and complex process they have gone or are still going through. I note that the Committee has been advised that BPP are making good progress and better progress than some other pools, and the Committee has received presentations on key issues.

5.2 At this stage, the Dorset Fund is in a process of transition, both in the transfer of assets to suitable pooled and in the on-going governance arrangements for investment strategy implementation and management. While there will be guidance and advice on generic processes, the Committee and Board will need to develop governance arrangements that work best for them in practice.

5.3 I list below some areas of concern that are affecting future governance relating to the pooling of investments, not all of which are necessarily a concern for Dorset but may be useful to note:

Regulatory guidance - MHCLG issued draft guidance for informal consultation earlier in the year that was not well received and raised a number of governance issues. A revised version of the guidance is awaited and I refer to this further below.

Asset structures - There are issues in a number of funds about whether the structures offered by the pools are the 'best fit' for their investment strategies. There is no simple solution to this in terms of implementation but there is a governance issue in terms of compliance and monitoring.

Transparency - Many funds are finding it difficult to obtain information in a 'public' format about how the development of the pools is progressing. To some extent this is understandable in the early stages of commercial sensitivity and during major asset transitions. However, it will be important for all pools and their oversight committees to develop open reporting arrangements, particularly regarding performance, investment costs and savings.

Relationships with asset managers - As assets transfer to the pool, it is the pool company that becomes the 'client' of the asset manager. Some funds still wish to meet managers to maintain knowledge and understanding but the pools require prior approval for such meetings.

Monitoring implementation and management - Pension fund committees (and in association, LPBs) are losing the ability to monitor how their investment strategy is being implemented and how performance targets are being met at the fund/local level.

Role of LPBs - As indicated earlier, the role in regard to investment is confused and becoming more so with poorly drafted guidance purporting to impose greater compliance responsibilities. Proposed guidance in relation to responsible investing may further complicate matters.

Responsible investing and the exercise of rights - current policies which delegate action to asset managers and voting agencies may no longer be effective or may be difficult to implement if the pool company becomes the 'beneficial owner'.

6.0 Dorset Local Pension Board

6.1 I have commented in previous years that the Board's arrangements appeared out of kilter with the arrangements in other funds and that they might be open to criticism from the Pensions Regulator.

6.2 I am pleased to note therefore that the Board has reviewed and revised its terms of reference during the past year, increasing both the number of members, and the number of meetings. The Board is maintaining a comprehensive programme of business, monitoring Scheme consultations and regulatory changes, and is reviewing policy documents.

7.0 Scheme Advisory Board (SAB)

7.1 There are several key governance issues currently being considered by the Board, which next meets on 6th November. These issues are referred to further below.

8.0 Regulations and guidance

- 8.1 Knowledge of the LGPS regulations and guidance is a fundamental requirement for Pension Board members and important for Committee members also. I have suggested to other Funds that they make use of the LGPS website [www.lgpsregs.org/] (maintained by the Local Government Pensions Committee) as a reference point for the regulations and as a source of information on developing changes and advice in the LGPC bulletins.
- 8.2 As indicated above, MHCLG has yet to respond to the 93 responses to the informal consultation on draft guidance on pooling. Subject to how this guidance is finalised, there will be significant implications for the pooling process and for governance arrangements, including those of local pension boards.
- 8.3 The SAB has advised recently that Remedy 7 of the Investment Consultancy and Fiduciary Management Investigation Order 2019 applies to the LGPS and comes into force on 10th December. This will require LGPS funds to set objectives for their investment consultants and draft guidance has been issued by the Pensions Regulator.
- 8.4 The SAB is considering draft guidance on responsible investment which aims to explain the parameters of the regulations, statutory guidance, fiduciary duty and general public law. A second phase of guidance is intended to propose amendments to the guidance on the investment regulations to reflect the Government's policy on climate change and wider responsible investment considerations.
- 8.5 The guidance is intended as a resource for members of pensions committees and local pension boards with the aim of helping decision-makers to better understand what their legal obligations are and what type of investment practices they can adopt with regard to ESG considerations, while continuing to meet these duties.
- 8.6 The Government's proposals regarding changes to the local valuation cycle and the management of employer risk were subject to consultation in the summer but it is not yet clear what conclusions the Government has drawn or how these will be implemented in the form of Scheme regulation amendments.
- 8.7 Inevitably all these issues and potential changes will impact upon the governance framework and further complicate the requirements for compliance, knowledge and understanding on both the Committee and the Board.

9.0 Governance reviews and surveys

Hymans Robertsons' report on good governance

- 9.1 The SAB is considering the outcome of this report with proposals for a revised Governance and Compliance Statement, an update to the MHCLG guidance issued in 2008, setting minimum standards of knowledge and understanding to apply to elected members on pensions committees, biennial governance reviews, and an "LGPS Peer Challenge" process. CIPFA and Aon Consulting are preparing revised guidance on requirements for knowledge and understanding.
- 9.2 These proposals will require changes to the regulations on which there will need to be consultation but it is possible that changes will be introduced from April next year. This will mean a major 'shake up' in the statutory governance framework.

The Pensions Regulator's Survey 2018 and 2019

- 9.3 The 2018 survey was undertaken at the end of last year and the results were only published during the summer. The policy response sets out tPR's view in relation to key issues such as pension board meetings; knowledge and understanding; board membership; risk registers; data collections; cyber security, data quality, annual benefits statements; and administration. Many of these areas have already been covered by the Dorset Fund.
- 9.4 Some of the assumptions made by tPR (which cover all public sector schemes) may be considered simplistic based on a broad survey that is nearly one year old. However their views on these issues will influence their approach to LGPS funds which they have indicated will become more intense in the near future. It is important therefore that responses to these surveys are considered carefully. The 2019 survey is due shortly.

Local Pension Board Survey 2019

- 9.5 The SAB was due to issue a survey in August on similar lines to previous surveys as a basis for monitoring local pension board activity. The survey has not been issued in final form but is expected shortly. The nature of the questions in the current draft provides a good indication of how activity and performance is being measured and monitored.
- 9.7 As with the tPR survey, the Pension Board should work with the officers to complete the 2019 survey to give an accurate picture of the Dorset position and as a form of improving knowledge and understanding in terms of LGPS oversight.

10.0 Conclusions

- The Dorset Pension Fund continues to be administered in line with good governance principles.
- The governance framework is complex and looks set to become more onerous in the not too distant future.
- Regulatory governance oversight appears to operate on the presumption of poor compliance unless proven otherwise.
- There is no formal requirement on those who regulate and advise the LGPS nationally to maintain a suitable level of knowledge and understanding.



8 Old Jewry, London EC2R 8DN, United Kingdom | +44 20 7079 1000 | info@allenbridge.com | mjudson.com | mjudson-allenbridge.com

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