Pension Fund Committee

Minutes of a meeting held at the offices of Insight Investments,
160 Queen Victoria Street, London
on 26 June 2014.

Present:
Neil Sorton (Borough of Poole Council) (Chairman)
John Beesley (Bournemouth Borough Council) (Vice-Chairman)
Mike Byatt, Andrew Canning, Ronald Coatsworth, Colin Jamieson, Mike Lovell (all Dorset County Council), John Lofts (District Council Representative) and Johnny Stephens (Scheme Member Representative).

Officer Attendance:
Richard Bates (Head of Financial Services, for Fund Administrator), Nick Buckland (Chief Treasury and Pensions Manager) and Tom Wilkinson (Finance Manager (Treasury & Investments)).

Manager and Adviser Attendance:
Alan Saunders (Independent Adviser), Peter Scales (Independent Professional Adviser), Ian Wilson and Natalie Doyle (CBRE Global Investors), Paul Richmond and Gary Wilkinson (Insight Investments)

(Note: These minutes have been prepared by officers as a record of the meeting and of any decisions reached. They are to be considered and confirmed at the next meeting of the Committee to be held on **8 September 2014**).

Election of Chairman

Resolved

23. That Neil Sorton be elected Chairman for the remainder of the year 2014/15.

Appointment of Vice-Chairman

Resolved

24. That John Beesley be appointed Vice-Chairman for the remainder of the year 2014/15.

Apology for Absence

25. An apology for absence was received from Paul Kent (Fund Administrator).

Code of Conduct

26. There were no declarations by members of any disclosable pecuniary interests under the Code of Conduct.

Terms of Reference

27. The terms of reference for the Committee were received by members.

Noted

Minutes

28. The minutes of the meeting held on 4 March 2014 were confirmed and signed.

Matters Arising

Minute 14 – Fund Administrators Report

29. The Chief Treasury and Pensions Manager provided a verbal update on the transfer of assets and liabilities of Dorset Probation Trust to the Greater Manchester Pension Fund and informed the committee that the latest estimate of the assets to transfer was in the region of £35m, rather than the £30m that had been estimated at the last meeting.

Public Participation

Public Speaking

30.1 There were no public questions received at the meeting in accordance with Standing Order 21 (1).

30.2 There were no public statements received at the meeting in accordance with Standing Order 21 (2).

Petitions

30.3 There were no petitions received in accordance with the County Council's petition scheme at this meeting.

Review of the Fund's Strategic Asset Allocation

31.1 The Committee considered a report from the Chief Treasury and Pensions Manager that updated the Committee on the progress that had been made since it approved the new strategy at its meeting in March 2014.

31.2 He explained that a short list had been created from a long list of almost 40 infrastructure investment specialists, in conjunction with JLT, the investment consultants being used to assist with the manager selection. The interview process was to take place on 2 July 2014 and the short list was divided into considering a UK specialist investment manager and a global specialist.

31.3 It was requested that the Committee delegate the decision to appoint up to a maximum of two infrastructure managers to the Fund Administrator, to enable the investment to be made as soon as possible after the manager selection.

31.4 There was a discussion about the level of diversification offered by only investing in the UK. It was explained that one of the attractions of infrastructure as an asset class was that it provided a natural hedge against inflation, and that overseas infrastructure would produce returns in line with the inflation of the country in which the asset was located.

31.5 In relation to the Diversified Growth Fund (DGF), the Chief Treasury and Pensions Manager reported that he had requested JLT to undertake some more work to broaden their search and that the Committee delegate authority to the Fund Administrator, after consulting with the Chairman and Vice Chairman to appoint a DGF manager.

31.6 In relation to Private Equity investments it was proposed that the Committee agree to commit an additional £50m to private equity every two years, subject to review and monitoring.

31.7 The Committee also considered a revised Statement of Investment Principles, which had needed updating to permit the Fund to extend its allocation to Liability Matching Investments.

<u>Resolved</u>

32.1 That the Committee delegate authority to the Fund Administrator, after Consultation with the Chairman and Vice-Chairman, to appoint one UK infrastructure manager and up to one global infrastructure manager.

32.2 That the officers continue to progress the appointment of an additional DGF manager, and report progress and recommendations for appointment to the Committee by email.

32.3 That £50m be committed every two years to new private equity vintages.

32.4 That the revised Statement of Investment Principles be adopted.

32.5 The progress made in implementing the revised strategy be noted.

Governance Compliance Update and response to the Local Government Pension Scheme Consultation

33.1 The Committee considered the report by the Independent Professional Observer (IPO), and the response to the consultation on the future of the LGPS. The IPO updated the Committee on progress made since his previous report in June 2013, the new proposals for the Local Government Pension Scheme (LGPS), and his thoughts in relation to the Government's Call for Evidence.

33.2 The IPO stated that the Committee had high standards of governance but there were some minor improvements that should be made, and highlighted three areas where the Fund's documents that were published on the website needed updating. The Chief Treasury and Pensions Manager agreed they would be changed shortly.

33.3 In relation to the consultation on the make-up of Local Pension Boards it was explained that the consultation was issued on 23 June with a 6 week consultation period ending on 15 August 2014, with a view to the government laying the regulations before parliament in October for a 1 April 2015 implementation. There were a number of options available.

33.4 The costs of administrating the advisory board would be a cost to the Pension Fund, and its role would be one of scrutinising the work of the Pension Fund Committee.

33.5 In relation to the Call for Evidence the IPO explained the outcome of the review, and the subsequent consultation. The Chief Treasury and Pensions Manager presented the draft response to this consultation, and asked the Committee for comments and input before finalising the response. He confirmed the consultation focussed on savings that could be made from more collaborative working on investment management, and the greater use of passive management.

33.6 The consultation gave four options around the greater use of passive management, ranging from compulsory use for all listed assets, to ensuring that funds considered passive. The Committee indicated that, whilst clearly passive management has a part to play, it should not be compulsory, and supported the "comply or explain" option. The remainder of the consultation focussed on the greater use of Collective Investment Vehicles (CIVs), which would allow funds to generate savings from efficiencies of scale.

33.7 The Chief Treasury and Pensions Manager thanked the Committee for their comments and views expressed, and said that he would revise the response to the consultation before the deadline to respond (11 July), and send members a copy of the final version.

Resolved
34. That officers would prepare a response to the consultation and send to the Department for Communities and Local Government, and that copies would be sent to the Committee.

The Liability Matching Portfolio
35.1 The Committee considered a report and presentation from Insight Investments which explained the overall strategy of how they had matched liabilities and that they had purchased a number of index linked gilts with a maturity profile that matched the Pension Fund's liabilities. It was explained that these gilts were then used as collateral to support the Retail Price Index (RPI) swap contracts that were purchased to match the liability profile further. It was hoped that between 30% and 40% of the Fund's liabilities could be hedged in this way.

35.2 The Independent Adviser noted that Insight had managed to limit the damage that inflation would have on the Fund in addition to generating an additional benefit of £8m more than these liabilities.

35.3 Insight explained how trigger points were used when purchasing the RPI swaps to ensure that the inflation hedges were implemented at appropriate market rates and the insurance was not too expensive for the Fund.

Noted

The Property Portfolio
36.1. The Committee considered a report and presentation from Ian Wilson and Natalie Doyle, Investment Manager and Asset Manager from CBRE Global Investors, which provided a brief economic update and the impact that economic performance would have on the property portfolio. It was explained that the expected property returns for 2014/15 would be around 14%, with rental yields offering around 6% and capital growth providing 8%.

36.2 In relation to performance they stated that the Fund underperformed for the first quarter of the year, but over 1 year, 3 and 5 years it was out performing the industry benchmark. It was explained that the fund was currently underweight against its target but outlined a number of purchases that were in the process of being finalised that would allow the target to be met by the end of the financial year.

36.3 The Committee were shown the recent purchases that had been made over the previous 12 months as well as three new purchases that were due to complete in the following months. The rationale for the purchases was made along with projected returns and opportunities associated with the properties.

Noted

Other Manager Reports
(a) Internal Manager
37.1 The Finance Manager (Treasury and Investments) presented the UK Equity report which highlighted the performance of the internally managed UK equities portfolio, the Standard Life UK equities fund, the AXA Framlington fund and the Schroders Small Cap fund. All funds had performed well over the three and five year period and the internal portfolio was performing in line with its benchmark.

(b) Pictet Asset Management
37.2 The Chief Treasury and Pensions Manager presented the Global Equities report from Pictet Asset Management. He stated that the performance was disappointing,

although it was to be expected given the bearish position of the manager. He explained that he and the Independent Adviser had met with Pictet to review their approach. There would be an update to the Committee on the conclusion of the review.

(c) Royal London Asset Management

37.3 The Chief Treasury and Pensions Manager presented the Corporate Bond Manager's report and drew attention to the performance which was positive and to the report and how the manager set out his strategy. Members commented on the quality of the report and the overall performance.

(d) Barings Asset Management

37.4 The Finance Manager (Treasury and Pensions) presented the Diversified Growth Fund Manager's report which had underperformed during the previous 12 months. The performance was disappointing and was because a number of investment calls had proved wrong during the period, particularly the investments in Japanese equities. It was highlighted that this was a long term fund and that it continued to perform in line with its benchmark since inception in March 2012.

Noted

Funding Strategy Statement 2014-2017

38. The Head of Financial Services presented the Funding Strategy Statement which had been prepared by the Fund's Actuary in conjunction with the Actuarial Valuation. The document was the third revision, after the first was produced in 2005, and set out how the administering authority had balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employer contributions and prudence in the funding basis.

Resolved

39. That the Funding Strategy Statement be approved as a basis for consultation with the Fund's employers.

Fund Administrators Report

40.1 The Committee considered a report by the Fund Administrator, presented by the Head of Financial Services on the economic outlook and the impact on the Fund investments.

40.2 The Independent Adviser presented Appendix 2 of the Fund Administrator's report, and provided an update on the economic outlook and how it was likely to affect each asset class. The UK economy had performed well and was forecast to continue to grow strongly. UK economic output had recovered to the same level as the 2007 peak. The US economic output had declined largely due to extreme weather during the first half of the year. It was felt that this was a temporary issue and would correct.

40.3 The Governor of the Bank of England had given a number of apparently conflicting signals on the direction of interest rates. He had initially indicated that rates could increase sooner than anticipated, but had later stated that there was sufficient capacity in the economy to allow rates to remain low, in light of slow wage growth which had continued to be below the rate of inflation.

40.4 In the USA, the Chairman of the Federal Reserve continued to favour a loose monetary policy. Tapering was expected to continue until the end of the year, which would then make monetary policy more neutral. Consumer confidence continued to be strong in both the UK and USA.

40.5 The EU continued to face problems and was facing the prospect of deflation, with Eurozone inflation at 0.5%. Generally the northern EU states had performed relatively well, with the southern states and periphery performing weakest. The European Central Bank responded and reduced interest rates to 0.25% and started to charge banks to deposit with it. In bond markets gilts yields had fallen across the EU despite the evidence of economic improvement.

40.6 Emerging markets had experienced a torrid time over the past 12 months, but there were signs that they would improve as political issues had been resolved in some countries. There remained a high level of risk in relation to the geopolitical tensions in Russia and Ukraine, as well as potential political unrest in Brazil, Turkey, Syria and Iraq.

40.7 The Head of Financial Services presented the Fund Administrator's report. He stated that performance had been positive for the 12 months to 31 March 2014 at 7.56% against a benchmark of 6.50% and the Local Authority average of 6.40%. He outlined the cash position of the Fund, which continued to see contributions from members exceed payments made to pensioners.

40.8 In relation to asset allocation, the Fund was underweight in Bonds by £10m, Diversified Growth by £10m and Inflation Hedging by £50m. It was stated that allocations would be made to these areas in the following month.

40.9 In the financial year 2013-14 the Fund's overall return seeking assets returned 9.28% against the benchmark of 8.10%, the Liability Matching Assets were a drag on Fund performance detracting by -6.29% against a benchmark of -7.27%. It was noted, however, that liabilities had reduced by the benchmark figure which therefore placed the Fund in a good position.

40.10 The poor performing managers included JP Morgan in emerging markets and Intech in active US equities. Private Equity had performed well over the longer term, and hedge funds were being divested from following the decision of the March 2014 meeting.

40.11 Treasury Management continued to perform well and ahead of its benchmark. Members were concerned about the level of cash balances and asked officers what would be done about it. The Chief Treasury and Pensions Manager stated that the rebalancing of Bonds, Liability Matching and Diversified Growth investments would use £70m of the cash and that the proposed investments in Property and the new allocations to Infrastructure and Diversified growth would allow the investment of this cash.

40.12 The Chairman reminded the Committee that the Fund had been nominated for the Financial News Pension Fund of the year awards. The Dorset County Pension Fund had been the only Local Government Pension Scheme Fund that had been nominated and it was largely due to the work that had been done on the Liability Matching strategy coupled with the good performance in 2012/13.

40.13 A member asked the Chairman to convey the Committee's thanks to the officers for the continued excellent performance of the Fund, which had led to the nomination for the Financial News. The Chairman agreed and asked that this thanks be recorded in the minutes.

40.14 The Chairman also stated that the Finance Manager for Treasury and Investment was leaving his role to take up a new position at the Borough of Bournemouth Council. He was thanked for his work for the Committee and wished well for the future.

Dates of Futures Meetings

41. The Committee noted that meetings were scheduled as follows:

8 September 2014	County Hall, Dorchester
26/27 November 2014	London (to be hosted by RLAM on 27 November).

Questions from Members of the Council

42. No questions were asked by members under Standing Order 20 (2).

Meeting Duration
10.00am to 1.20pm