

# Pension Fund Committee

Minutes of a meeting held at County Hall,  
Colliton Park, Dorchester on 8 September 2014.

## **Present:**

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

## Officer Attendance:

Paul Kent (Fund Administrator), Richard Bates (Head of Financial Services), Nick Buckland  
(Chief Treasury and Pensions Manager) and Anne Cheffey (Pensions Benefits Manager).

## Manager and Adviser Attendance:

Alan Saunders (Independent Adviser), Duncan Laird (KPMG)

(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 **26 November 2014**).

## **Apologies for Absence**

43. No apologies for absence were received.

## **Code of Conduct**

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

## **Minutes**

45. The minutes of the meeting held on 26 June 2014 were confirmed and  
signed.

## **Matters Arising**

### Minute 36.1 – The Property Portfolio

46. The Chief Treasury and Pensions Manager referred to the CBRE  
presentation and the redevelopment of the property in Cambridge. He advised the  
Committee that more discussion would be sensible and CBRE would be running a training  
session for the Committee as part of the November meeting.

## **Public Participation**

### Public Speaking

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

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

### Petitions

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

**Report to those charges with Governance (ISA 260) 2013/14**

48.1 The Committee considered the final report on the Pension Fund accounts from Duncan Laird, Manager KPMG, the Fund's external auditors that summarised the key issues identified during the audit of the Fund's financial statements for the year ended 31 March 2014.

48.2 It was explained that at the date of the report the audit of the Fund's financial statements was substantially complete and that the audit had not identified any material adjustments. He confirmed that the audit had gone well and that an unqualified opinion on the accounts would be issued following approval of the Statement of Accounts by the Audit and Scrutiny Committee on 16 September 2014. However he explained that the opinion would not be issued until the signed management representation letter was received which would be included in Dorset County Council's report.

48.3 The Chief Treasury and Pensions Manager commented that the Annual Report for the Pension Fund had to be published by 1 December 2014 and it would be published in advance of that date. The Annual Report would be formally presented to Committee on 26 November 2014.

48.4 One member enquired whether issues over the IT environment had been resolved. The Fund Administrator responded that the issues raised in the 2013 audit had been resolved and more detail was available if required.

48.5 The Chairman thanked the officers for their work on the audit.

**Noted****Administering Authority Administration Discretions policy**

49.1 The Committee considered a report by the Fund Administrator on the Administering Authority Administration Discretions contained within the Local Government Pensions Scheme (LGPS) Regulations from 1997 to 2014.

49.2 He explained that there were a few changes to the discretions due to the introduction of the new LGPS from 1 April 2014. The main changes covered abatement to pensions on re-employment, the need for a joint decision between the Administering Authority and Employer on allowing late transfers in of service to the Fund and orphan members where the employer no longer exists.

**Resolved**

50. That the revised Administering Authority Administration Discretions be approved and adopted.

**Review of Investment Management Arrangements**

51.1 The Committee considered a report by the Fund Administrator which explained arrangements for the review of investment managers. The Chief Treasury and Pensions Manager summarised the report.

51.2 The internal portfolio continued to track the index, within the agreed tolerance levels, as intended. The performance of Standard Life had been good, if not somewhat volatile, however it was pleasing to note that this had been positive recently. The Royal London mandate was now focussed purely on corporate bonds and the portfolio had been a consistent performer.

51.3 The Independent Adviser commented that Standard Life was a very active manager and in the long term this had worked. He questioned whether the Committee was

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prepared to continue with the volatility. The Chief Treasury and Pensions Manager commented that the investment made up 2% of the Fund and was not a significant proportion, and members were comfortable to accept this level of volatility within the overall diverse portfolio.

51.4 The advice from the Independent Advisor was to continue to use Standard Life as the investment was long term.

**Resolved**

52.1 That Standard Life be reappointed for review in 2017.

52.2 That the internal manager be reappointed for review in 2017.

52.3 That rlam be reappointed for review in 2017.

**Review of the Fund's Strategic Asset Allocation**

53.1. Prior to the Committee considering a report of the Fund Administrator, the Chief Treasury and Pensions Manager provided an amended recommendation iv).

53.2 The Committee considered a report by the Fund Administrator, which provided an update on the progress made since the Committee met in June 2014 on the implementation of the new strategy.

53.3 The Chief Treasury and Pensions Manager summarised the report which explained that the new infrastructure allocation had progressed, and as a result of the search process undertaken, Hermes Fund Managers and IFM were appointed to manage £40 Million each. The Hermes strategy specifically focused on UK investments and IFM had a more global approach. The legal documents were with the Fund's legal advisers and the process would hopefully conclude within the next few weeks. It was anticipated that both investments would be fully invested within 18 months.

53.4 There was an issue with the Diversified Growth Fund (DGF) due to two key individuals who had left the employment of Barings and moved to Pictet which had brought into question the future of Dorset's investment. Although this was a potentially serious change in the management structure, it was considered best to remain invested with Barings for the time being, and keep the position under review.

53.5 The issues at Barings, therefore, meant that it would not have been logical to continue with the search process for an additional DGF manager, until a firmer view had been reached on whether to remain invested. It was, therefore, decided to defer the search process for 12 months, and allocate the cash balances to Equity and Bonds. The details of the allocation were contained in recommendation iv) as amended.

53.6 The Chief Treasury and Pensions Manager expanded on the rationale behind the amendment to recommendation iv), and commented that after reviewing the cash balances, and future cash-flows, it was appropriate to allocate £80 Million at this time, and review the position at subsequent meetings. The reasons behind this were accepted by the Committee.

**Resolved**

54.1 That the progress on the implementation of the new strategy be noted.

54.2 That the appointments of Hermes and IFM be noted.

54.3 To defer the search for an additional DGF manager for 12 months.

54.4 That the strategic asset allocation be amended temporarily as shown in paragraph 2.15 of the report, and to start to achieve this by allocating from cash £40 Million to rlam, £26 Million to the internal UK Equity portfolio and £15 Million to Insight.

**Fund Administrators Report**

55.1 The Committee considered a report by the Fund Administrator on the economic outlook and the impact on the Fund Investments.

55.2 The Independent Adviser (IA) 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 US economy had performed well in the second quarter and the UK economy had shown strong growth and low inflation. The European economy was still struggling but this had been due to the fact that Europe had not undertaken full Quantitative Easing (QE) as had the UK, US and Japan. The Global economy had broadly bottomed out. Emerging markets had staged something of a recovery.

55.3 Gilts had been strong during the year at 3 to 4%, Base rates would start to rise in Spring 2015 and the Stock Market would be able to cope up to a 3% increase.

55.5 UK commercial property had continued to storm ahead with a reported 10% total return for the first half and was a good asset class to be in.

55.6 One member commented that there appeared to be stability in global markets and asked the IA what would change this stability. The IA responded that the outcome of the Scottish referendum, a sharp rise in interest rates or a bank collapsing could affect the stability, he stated the market would need a shock.

55.7 The Fund Administrator summarised his report. The overall Fund performance was in line with expectations and the liability matching assets had done well. There had been a few small problems with HSBC and the timings of their performance reports and officers were in discussions with HSBC in order to rectify this.

55.8 The Fund Administrator commented on the reform of the LGPS. The London Boroughs had set up a Collaborative Investment Vehicle and there was a possibility that County Councils would look to do something on their own. It appeared that the mandatory merging of Funds was off the Government's Agenda at present. The Governance Regulations had still not been received but he felt that the Fund should move forward with the principle and on setting up a Local Board in readiness for April 2015.

55.9 The meeting was the Fund Administrator's last before his retirement at the end of September. He expressed enjoyment at working with the Committee and all the challenges that the Fund had faced in the last 8 years. He thanked the Treasury and Pensions Team for all their efforts and hoped that this would continue as such.

55.10 The Chairman thanked the Fund Administrator for all his hard work, and reminded the Committee of some of the achievements of the Fund, under his leadership. He reflected on the tough period that the Fund experienced in the global financial crisis of 2008/09, and how it had emerged stronger and had performed well since then. He wished the Fund Administrator a long and healthy retirement.

**Noted****Managers Reports****(a) CBRE Global Investors**

56.1 The Chief Treasury and Pensions Manager presented the CBRE Global Investors report. He commented on the void rate within the portfolio which at 2% was still well below the average, and had contributed to the good performance.

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(b) Insight Investment

56.2 The Chief Treasury and Pensions Manager presented the Dorset Liability Matching Portfolio report from Insight Investment. He stated that the performance was still positive and that any added value was a bonus.

(c) Pictet Asset Management

56.3 The Chief Treasury and Pensions Manager presented the Global Equities report from Pictet Asset Management. He stated that the performance was still disappointing, however, the Committee understood the reasons for this. The Fund had committed to review this area, and work was continuing on this.

(d) Royal London Asset Management

56.4 The Chief Treasury and Pensions Manager presented the Corporate Bond Manager's report which showed that the fund had outperformed the benchmark by 0.31% in Q2 and over five years by 4.45% per annum.

(e) UK Equity Report

56.5 The Chief Treasury and Pensions Manager presented the Internal Manager's report on UK Equities. He commented that the overall results were slightly disappointing for the quarter, however as this was a long term investment overall it was good.

**Noted****Dates of Future Meetings**

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

26/27 November 2014	London (to be hosted by rlam on 27 November)
3 March 2015	Dorset – venue to be confirmed

**Questions from Members of the Council**

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

Meeting Duration  
10.00am to 12.10pm