Pension Fund Committee

Minutes of a meeting held at the offices of rlam, 55 Gracechurch Street
London, EC3V 0RL on 27 November 2014.

Present:

John Beesley (Bournemouth Borough Council) (Vice-Chairman – in the Chair)
Mike Byatt, Andrew Canning, Ronald Coatsworth, Colin Jamieson, Mike Lovell (all Dorset County Council) and John Lofts (District Council Representative).

Officer Attendance:
Richard Bates (Fund Administrator), Nick Buckland (Chief Treasury and Pensions Manager) and David Wilkes (Finance Manager - Treasury & Investments).

Manager and Adviser Attendance:
Alan Saunders (Independent Adviser), James Lucas, Perry Noble and Sion Colley (Hermes Investment Management), James Stoddart and Jonathan Platt (Royal London Asset Management)

(Note: 1. 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 **3 March 2015**.

2. **RECOMMENDED** in this type denotes approval of the County Council is required.)

Apologies for Absence

59. Apologies for absence were received from Neil Sorton (Borough of Poole Council) and Johnny Stephens (Scheme Member Representative).

Code of Conduct

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

Minutes

61. The minutes of the meeting held on 8 September 2014 were confirmed and signed.

Public Participation

Public Speaking

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

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

Petitions

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

The Infrastructure Portfolio

64.1 The Committee received a presentation from James Lucas, Perry Noble and Sion Colley from Hermes Investment Management, one of the Fund's two recently appointed

Infrastructure Managers. The presentation included an explanation of what was meant by infrastructure and why it was an attractive class for pension funds to invest in, who Hermes were and what their approach to identifying assets to invest in was, and what assets had been invested in and why.

64.2 One member asked if investment decisions took into consideration the often significant costs and loss of revenue when infrastructure assets were decommissioned. Mr Lucas confirmed that investment decisions took into account expected cash flows throughout the investment period.

64.3 One member asked what proportion of the fund was held by Hermes's parent, the BT Group. Mr Lucas replied that £830M was now invested in the fund, of which £400M had been invested at inception by the BT Pension Fund, and that the fund had a 'hard cap' of £1.2billion.

64.4 One member asked if the fund would be looking to invest in tidal power projects. Mr Colley replied that as tidal power was still an emerging technology, with higher risks than more established technologies like wind and solar power, such projects were currently unlikely to demonstrate the key characteristic of low volatility from stable and predictable cash flows the fund was looking for.

64.5 The Independent Adviser asked what return could be delivered by investing in the infrastructure fund in excess of RPI. Mr Noble replied that the expected return on investments in 'core' assets was RPI plus 5%, on 'value added' assets was RPI plus 8% and the small proportion of the fund held in opportunistic assets should return around RPI plus 12%.

64.6 Following the presentation, one member asked what mechanism would be used for reporting performance by the two new infrastructure managers to the Committee. The Chief Treasury and Pensions Manager stated that the performance of the two infrastructure managers would be included in the Fund Administrator's report, and directly from the managers from time to time, as was the case with other managers.

Noted

Pension Fund Annual Report 2013/14

65.1 The Fund Administrator presented the annual report to the Committee, and highlighted the fact that the auditors had issued an unqualified opinion on the accounts.

65.2 The Fund Administrator thanked the Chief Treasury and Pensions Manager and his team for their work in preparing the annual report, and the pensions administration team for all their work during the year. On behalf of the Committee, the Vice-Chairman also thanked the Fund Administrator, his predecessor, and the Chief Treasury and Pensions Manager and his team for their work.

Resolved

66. That the Pension Fund Annual Report 2013/14 be approved for publication by the Committee.

Local Pension Board

67.1 Members were provided with an amendment to paragraph 3.5 of Appendix 2 of the report.

67.2 The Committee considered a report by the Fund Administrator, which explained the mandatory requirement under the Public Sector Pensions Act for the Dorset

Fund to create a Local Pension Board effective from 1 April 2015. The report included draft terms of reference for the Committee to consider, including recommendations over the membership of the Pension Board and how the Pension Fund should go about selecting appropriate board members. The Chief Treasury and Pensions Manager explained that to establish the Local Pension Board, the Committee was required to make a recommendation to the County Council's Standards and Governance Committee, who in turn would make a recommendation to the County Council.

67.3 One member asked for the terms of reference to be amended to state clearly that members or officers could not be members of the Pension Fund Committee and the Local Pension Board, as stated in the regulations. The Chief Treasury and Pensions Manager agreed to make this change.

67.4 One member asked how the competency of prospective members of the board would be assessed. The Chief Treasury and Pensions Manager replied that criteria to make such an assessment would need to be identified and agreed.

67.5 One member asked for clarification of the reporting lines for the Local Pension Board and its 'public face'. The Chief Treasury and Pensions Manager replied that the Board could have several reporting lines including this Committee, the County Council, the National Pension Board and the Department for Communities and Local Government (DCLG). He stated that as the Board was not a formal committee of the County Council there was no formal obligation for the Board to report to the public, but he believed that it would be beneficial for some publications to be made publically available, for example on the Pension Fund website. The Chief Treasury and Pensions Manager agreed that further clarity on these issues was required and he would continue to seek guidance from DCLG, and continue to discuss with other local authority pension funds their proposals.

67.6 One member asked if the Local Pension Board would have any responsibilities for investments and benefits. The Chief Treasury and Pensions Manager replied that the Board would have no role in investment decisions but could comment on the processes for agreeing and implementing the investment strategies agreed by the Committee. The Chief Treasury and Pensions Manager did however think that some benefits related responsibilities of the Committee could transfer to the Board, such as agreeing the communications strategy.

Resolved

68.1 That the draft terms of reference be amended as set out in minute 67.3 above.

68.2 That the Committee delegate authority to the Fund Administrator, after consultation with the Chairman and Vice-Chairman, to agree any changes proposed to these draft terms of reference which result from the publication of the final regulations by DCLG prior to the meeting of the County Council 12 February 2015.

RECOMMENDED

69. That the draft terms of reference, as amended, be recommended to the County Council and the Standards and Governance Committee for approval.

Reason for Recommendation

70. To ensure that the Fund complies with the Public Sector Pensions Act and the Local Government Pension Scheme Regulations.

Fund Administrator's Report

71.1 The Committee considered a report by the Fund Administrator on the allocation of assets and overall performance of the Fund as at 30 September 2014.

71.2 The Independent Adviser presented Appendix 2 and provided an update on the investment outlook and how it was likely to affect each asset class. The Independent Adviser commented that since writing his report there had been a sell-off of equities followed by a rally, and that Sterling had weakened against the US Dollar but strengthened against the Euro and most other currencies. He highlighted a number of concerning downward forces including uncertainty about the result of the general election in May 2015, the strong possibility of deflation in Europe, the adverse impact of the large increase in sales taxes in Japan, and potential difficulties in China. He also highlighted the continuing challenge for the UK authorities to reduce the deficit without dampening down the recovery.

71.3 In summary the Independent Adviser felt that equities looked expensive in the US, but fair value in other developed markets, and slightly under-priced in emerging markets. Therefore, there was still some positive momentum for the Fund to benefit from. His view was that there would still be some growth in commercial property in 2015, but probably not much beyond that. In conclusion, therefore, the Independent Adviser believed that the short term outlook looked reasonable but that a sell-off of some assets was likely at some stage during 2015.

71.4 A member raised concern about the adverse impact global tensions and uncertainties could have on the Fund's investments. The Independent Adviser did not think markets were paying as much attention to geopolitical issues as they were to economic concerns.

71.5 The Fund Administrator stated that paragraph 3.4 of the report should read that the agreed additional allocation to Insight was £15M not £10M.

71.6 The Chief Treasury and Pensions Manager gave the Committee an update on the latest cash position of the Fund, which as at 25 November 2014 was £49.9M. The major transactions since 30 September 2014 were the acquisition of Pilgrim House, Aberdeen, for £10M, the draw down by Hermes of £27M, the additional allocation to UK equities of £26M and a £30M redemption from Gottex.

71.7 The Independent Adviser commented that the Fund should be expecting returns on Private Equity investments 4-5% above the benchmark, the FTSE All Share index. The Chief Treasury and Pensions Manager highlighted the fact that there was a three month lag behind the benchmark of the reported performance of Private Equity investments which made assessment of private equity performance more difficult than other asset classes.

Resolved

72.1 That the Committee make no changes to asset allocation at this time.

72.2 That support ratings are removed as a means of assessing the financial strength of counterparties, for Treasury Management purposes.

The Corporate Bond Portfolio

73.1 The Committee considered a report from James Stoddart and Jonathan Platt from Royal London Asset Management (rlam) on the Corporate Bond portfolio. Mr Stoddart reported that whilst performance was marginally below the benchmark for the quarter ending 30 September 2014, it was above the benchmark for the year to 30 September 2014, the last 12 months, the last three years and the last five years.

73.2 Mr Platt commented that government bonds were unattractive as yields were too low for the level of risk, and he expected yields from corporate bonds to outperform government bonds. His view was that there was uncertainty in investment markets due to the forthcoming UK general election, geopolitical events and macro-economic factors, and he believed that to avoid a period of deflation, markets needed more confidence that growth was sustainable.

Noted

UK Equity Report

74. The Committee considered a report by the Chief Treasury and Pensions Manager 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. The Chief Treasury and Pensions Manager highlighted some concern with the performance of Schroders which had underperformed its benchmark over the three year period, and he stated that this would be kept under review.

Noted

Pictet Asset Management

75. The Committee considered a report by Pictet Asset Management on the Fund's investments in Global Equities. Members were reminded that that the performance of the Fund Manager would be discussed under Exempt Business later in the meeting.

Noted

CBREi Global Investors

76.1 The Committee considered the Property Manager's report. The Chief Treasury and Pensions Manager informed members that since 30 September 2014, the Property Manager had completed the acquisition of Pilgrim House, Aberdeen, for £10M.

76.2 The Independent Adviser commented that markets might shortly begin selling out of property, which might exert downward pressure on the asset class. The Chief Treasury and Pensions Manager stated that as the property portfolio was now at target weight, it was a good time to disinvest from some assets, for example, the decision had been taken to redeem the Fund's £10M holding in the InProp UK Commercial Property Fund.

Noted

Insight Investments

77. The Committee considered a report from Insight Investments, who had the mandate for the liability matching strategy. The Chief Treasury and Pensions Manager stated that the Fund Manager had implemented additional hedging at two of the previously time-based underpins.

Noted

Dates of Futures Meetings

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

3 March 2015	County Hall, Dorchester
23 June 2015	London (to be hosted by CBREi)
10 September 2015	County Hall, Dorchester
25/26 November	London (venue to be confirmed)

Questions from Members of the Council

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

Exempt Business

Exclusion of the Public

Resolved

80. That under Section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the business specified in minutes 81 to 84 because it was likely that if members of the public were present there would be disclosure to them of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing that information.

Overseas Equity Management arrangements (Paragraph 3)

81. The Committee considered a report by the Fund Administrator on Overseas Equities management arrangements, with a recommendation for the future structure. The Chief Treasury and Pensions Manager stated that paragraph 4.9 where "paragraph 5.3" should be substituted. There was a general view from members that further options needed to be explored so their decision could be made at the next meeting of the Committee. An approach was agreed and a further report will be considered at the meeting to be held on 3 March 2015.

Resolved

82.1 That the suggested approach be agreed.

82.2 That the Chief Treasury and Pensions Manager produces a report on the options for management arrangements for Overseas Equity Markets for the Committee to consider at its next meeting on 3 March 2015.

Diversified Growth (Paragraph 3)

83.1 The Committee received a presentation from Marino Valensise, Christopher Mahon and Brian Corris from Barings Asset Management. Mr Valensise explained the changes that had been made to the fund management structure to mitigate the impact of the departure of three key individuals in the summer.

83.2 The Fund Administrator asked if the flow of money out of the fund had slowed. Mr Valensise replied that the size of the fund had reduced from £9.0Bn to £3.0Bn but that the flow of money out of the fund had now slowed. He also explained that the size of the fund management team was not reducing.

83.3 The Independent Adviser asked whether LIBOR plus 4.0% was the right benchmark for the fund. Mr Valensise replied that he thought the benchmark was fair because the fund targeted equity like returns but with 50-70% of the volatility.

83.4 Members asked a number of additional questions of the Barings team, and appropriate responses were received.

Resolved

84. That the Committee ratify the decision taken in September 2014 to continue with the investment with Barings Asset Management, subject to on-going monitoring and formal review at the meeting of the Committee on 10 September 2015.

Meeting Duration 10.00am to 1.40pm