# Pension Fund Committee

Minutes of a meeting held at County Hall,
Colliton Park, Dorchester on 14 September 2015.

**Present:**
John Beesley (Bournemouth Borough Council) (Chairman)
Mike Byatt, Andrew Canning, Ronald Coatsworth, Mike Lovell, (all Dorset County Council), May Haines (Borough of Poole), John Lofts (District Council Representative) and Johnny Stephens (Scheme Member Representative).

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

Manager and Adviser Attendance:
Alan Saunders (Independent Adviser) and Duncan Laird, KPMG (External Auditor).

(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 2015**.

**Apology for Absence**

51. An apology for absence was received from Colin Jamieson (Dorset County Council) (Vice-Chairman).

**Code of Conduct**

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

**Minutes**

53. The minutes of the meeting held on 24 June 2015 were confirmed and signed subject to the following amendments:

Minute 33.8, "the Department for Communities and Local Government (DCLG)" being amended to read "the Shadow Scheme Advisory Board."
Minute 49, "25/26 November 2016" to be replaced by "23/24 November 2016."

**Public Participation**

Public Speaking

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

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

Petitions

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

**Statement from the Chairman**

56. The Chairman, on behalf of the Committee, wished Councillor Colin Jamieson, the Vice-Chairman, a full and speedy recovery from his recent operation.

**Report to those charged with Governance (ISA 260) 2014/15**

57.1 The Committee considered a report by the Fund's External Auditor, KPMG, which set out the work carried out by them to discharge their statutory audit responsibilities and which highlighted any governance issues. The External Auditor confirmed that no material adjustments had been identified and it was anticipated that an unqualified audit opinion would be issued by 30 September 2015. Overall it had been a good audit and the External Auditor thanked the Chief Treasury and Pensions Manager and his team for their help and co-operation. The Chairman, on behalf of the Committee, reiterated his thanks to the Chief Treasury and Pensions Manager and his team.

57.2 A member asked the External Auditor how materiality was decided. The External Auditor replied that it was usually between 0.5% and 1.5% of total net assets, flexed for risk, and that it was a cumulative figure, not a threshold for an individual item. The Fund had been assessed at about 1.0%, which was average to low risk.

57.3 The Independent Adviser asked if the annual financial statements included an update on the deficit position from the Fund actuary. The Chief Treasury and Pensions Manager said that it did not, but, under International Accounting Standard (IAS) 19, a deficit calculation was required based on bond yields, which generally gave an artificially high result as the fund invested in a range of diversified asset classes that were expected to deliver overall a significantly higher rate of return than bond yields.

57.4 The Independent Adviser felt that an annual funding update from the Fund Actuary would be a helpful control. The Fund Administrator added that from a Section 151 officer viewpoint, it would be useful to get an early indication of likely changes to employer contribution rates a year before the triennial review. A member asked about best practice amongst funds in reviewing their deficits annually. The Chief Treasury and Pensions Manager replied that some funds did and some did not but that he would raise this with South West colleagues and respond to the Committee.

57.5 The Independent Adviser noted that different firms of actuaries used different actuarial methodologies to value deficits, and this made comparison of funds difficult. The Chief Treasury and Pensions Manager replied that the Shadow Scheme Advisory Board (SSAB) was looking at the inconsistencies between methodologies actuarial valuations.

57.6 In relation to the management response to the minor issue raised by the External Auditor regarding the timeliness of bank reconciliations, a member asked if deterioration in services was inevitable. The Fund Administrator replied that whilst it was inevitable that some things would slip, high risk activities needed to be prioritised, and he considered timely bank reconciliations to be such an activity.

**<u>Noted</u>**

**LGPS Update – Pooling Investments**

58.1 The Committee considered a report by the Chief Financial Officer summarising the Government's requirements for LGPS funds to pool investments and setting out the Fund's plans to meet these requirements by working with other funds in the South West region to set up a collective investment vehicle.

58.2 The Chief Treasury and Pensions Manager explained that the South West funds had jointly commissioned PwC to produce a report by 16 September 2015 summarising the options. The Chief Treasury and Pensions Manager would report back in more detail at the November 2015 meeting, and thereafter this topic would be a standing agenda item and might require additional meetings.

58.3 The Independent Adviser said there were many questions to be answered and a great deal of detail to work through, but he believed that the Fund was doing the right thing by pursuing the option of a collective investment vehicle with other South West funds.

58.4 A member asked what the Government meant by "sufficiently ambitious proposals"? The Chief Treasury and Pensions Manager replied that this had not been defined or quantified by the Government but was likely to be measured by the three criteria of size, level of savings and governance.

58.5 Another member asked if there was any direction from Government on what was required. The Chief Treasury and Pensions Manager replied that there had been little direction from Government.

58.6 Members raised concerns about the governance arrangements, the possible movement away from local decision making and the risks to future performance of the fund, and asked if other options could be considered. It was agreed to continue with the work on the South West Collective Investment Vehicle but also to work with other funds to collectively lobby Government for exemptions for top performing funds, or funds returning above average returns, if this was likely to have any benefit.

**Resolved**

59.1 That the Dorset Fund support in principle the setting up of a South West Collective Investment Vehicle.

59.2 That the Fund Administrator be authorised to continue work with neighbouring funds in the South West to establish proposals for a South West Collective Investment Vehicle.

**Review of Investment Management Arrangements**

60.1 The Committee considered a report by the Pension Fund Administrator on the Review of Investment Management Arrangements.

60.2 A member suggested that Standard Life be asked to attend the next meeting of the Committee. The Chief Treasury and Pensions Manager replied that this was not possible as the intention was for IFM and one of the newly appointed global equities managers to be invited to attend.

**Resolved**

61.1 That AXA Framlington, Schroders and Standard Life be reappointed to manage UK equities for a further period of two years.

61.2 That Barings be reappointed to manage the DGF investments for a period of three years.

61.3 That JP Morgan be reappointed to manage global emerging market equities for a period of three years.

**Pensions Administration**

62.1 The Committee received a report by the Pension Fund Administrator on the Pensions Administration of the Fund.

62.2 The Pensions Benefits Manager highlighted that the Annual Benefits Illustrations (ABI) were issued three days after the 31 August 2015 deadline. The Chief

Treasury and Pensions Manager said that this would not need to be reported to the Pension Regulator as it was not a material delay.

62.3 The Chief Treasury and Pensions Manager informed members that KPMG had been appointed to produce the "options for separation" report for the Shadow Scheme Advisory Board (SSAB) by 21 September 2015.

62.4 The Pensions Benefits Manager confirmed that the Fund was looking to procure an administration software provider from a framework set up by the Northumberland Fund and all LGPS funds had signed up to the LGPS Fund National Insurance database.

62.5 A member raised concerns about the use of agency staff in the Pensions Administration team. The Chief Treasury and Pensions Manager replied that the new team structure was expected to be in place by the beginning of December 2015, and that any vacancies would then be identified and filled on a permanent basis.

**Noted**

**Voting Activity**

63.1 The Committee received a report by the Fund Administrator on the Fund's voting activity in the financial year 2014/15.

63.2 A member asked in what circumstances the Fund would abstain. The Finance Manager (Treasury and Investments) replied that the Fund would vote against resolutions where non-compliance with the Fund's policy was a clear matter of fact (for example, non-separation of the role of chairman and chief executive), but would abstain where non-compliance was subjective (for example, the judgement about what constitutes a "realistic" performance target for a bonus scheme).

63.3 A member asked why the Fund invested in companies where a high proportion of the shares were not traded on the market, such as Sports Direct International and others. The Chief Treasury and Pensions Manager replied that shares were held in all companies included in the FTSE 100 and FTSE 250, and that stocks were only included in these indices where at least 25% of the issued stock was available.

**Noted**

**Pension Fund Risk Register**

64.1 The Committee considered a report by the Chief Financial Officer on the revised Pension Fund Risk Register. The Chief Treasury and Pensions Manager highlighted the changes made to the Risk Register since the last meeting on 24 June 2015 and highlighted the two "red" risks identified.

64.2 The Independent Adviser commented that the biggest risk to the Fund was the ability to meet the deficit, and that other risks were a subset of this risk, for example, failure to meet investment return targets, failure to track the FTSE 350, and failure of other managers to meet performance targets. The Independent Adviser also suggested that covenant risk (i.e. employers who were unable to pay their contributions) could be included. The Chief Treasury and Pensions Manager agreed to make these changes to the Risk Register, and then circulate them to members for approval.

**Resolved**

65. That the publication of the revised Risk Register be approved, subject to the amendments agreed in minute 64.2.

**Fund Administrator's Report**

66.1 The Committee considered a report by the Chief Financial Officer on the allocation of assets and overall performance of the Fund up to 30 June 2015.

66.2 The Independent Adviser presented Appendix 2 and provided a commentary on the investment outlook, and how it was likely to affect each asset class. The Independent Adviser commented that since the last meeting there were greater concerns in the markets about the prospects for global economic growth. Those concerns had had an impact on equity valuations, which had fallen by 10% in August 2015. This was a "significant correction" not a "panic" or the beginning of a bear market. Equally, the Independent Adviser had not predicted "exciting" returns over the next 12 months.

66.3 The Independent Adviser felt that the burden of evidence did not suggest inflationary pressures were building, and therefore monetary authorities would not be rushing to tighten monetary policy. A member asked what an increase in interest rates would mean for the Fund. The Independent Adviser replied that there could be an adverse impact on the Fund only if rates rose more sharply than markets were expecting, which was a gradual rise to 2% by 2018.

66.4 The Fund Administrator informed members that the draft valuation of the Fund as at 31 August 2015 had fallen by approximately 2% to £2,263M from £2,310M at 30 June 2015. He highlighted that this lower fall than equity markets reflected the Fund's relatively low allocation to equities and its hedging strategies.

66.5 The Chairman, on behalf of the Committee, expressed his congratulations to the Chief Treasury and Pensions Manager and his team for the success of the Fund in winning the category of Best Local Government Fund at the Engaged Investor's Annual Awards.

**Resolved**

67.1 That the appointments of Allianz, Investec and Wellington to manage the Global Equity portfolio be noted.
67.2 That the 50% currency hedge on foreign currency exposure continue.
67.3 That an additional £10M be allocated to the IFM infrastructure fund.
67.4 That no additional changes be made to asset allocation at this time.

**Manager Reports**

(a) UK Equity Report

68. The Committee considered a report by the Finance Manager (Treasury and Investments) 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 that the income generated by stock lending continued to exceed the costs of the internally managed investments.

**Noted**

(b) Pictet Asset Management

69. The Committee considered a report by Pictet Asset Management on the Fund's investments in Global Equities.

**Noted**

(c) Royal London Asset Management (rlam)

70. The Committee considered a report from Royal London Asset Management (rlam) on the Corporate Bond portfolio.

**Noted**

(d) CBRE Global Investors

71. The Committee considered a report from CBRE Global Investors on the Fund's property investments. The Chief Treasury and Pensions Manager mentioned that some issues with the planning permission for the proposed development of 270 Cambridge Science Park had been raised with CBRE, and that they were looking to address these issues.

**Noted**

(e) Insight Investment

72. The Committee considered a report from Insight Investment, who had the mandate for the liability matching strategy.

**Noted**

**Dates of Futures Meetings**

**Resolved**

73. That meetings be held on the following dates:

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| 25/26 November 2015 | London, to be hosted by CBREi |
| 1 March 2016 | County Hall, Dorchester |
| 21/22 June 2016 | London (to be confirmed) |
| 8 September 2016 | County Hall, Dorchester |
| 23/24 November 2016 | London (to be confirmed) |

**Questions from Members of the Committee**

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

Meeting Duration 10.10am to 12.50pm