

# Pension Fund Committee

Minutes of a meeting held at the offices of CBREi,  
One New Change, London, EC4M 9AF on 26 November 2015.

## **Present:**

John Beesley (Bournemouth Borough Council) (Chairman)  
Mike Byatt (Dorset County Council) (Vice-Chairman)  
Andrew Canning, Mike Lovell, Peter Wharf (all Dorset County Council), May Haines  
(Borough of Poole), John Loftis (District Council Representative), Johnny Stephens (Scheme  
Member Representative), and Andrew Cattaway (Local Pension Board Chairman).

## Officer Attendance:

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

## Manager and Adviser Attendance:

Alan Saunders (Independent Adviser), Alison Hamilton (Barnett Waddingham), Tim Sutton  
and Nicola Staunton (Wellington Asset Management), James Clifton-Brown and Ian Wilson  
(CBRE), James Stoddart and Jonathan Platt (rlam), and Gary Wilkinson and Paul Richmond  
(Insight Investment).

(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 **28 January 2016**.)

## **Apology for Absence**

75. An apology for absence was received from Ronald Coatsworth (Dorset  
County Council).

## **Code of Conduct**

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

## **Minutes**

77. The minutes of the meeting held on 14 September 2015 were confirmed and  
signed.

## **Matters Arising**

78. The Chief Treasury and Pensions Manager reported that Councillor  
Jamieson, Vice-Chairman, had resigned from the Committee. The Chairman, on behalf of  
the Committee, thanked Councillor Jamieson for his contribution to the work of the  
Committee and wished him well for the future. He welcomed Councillor Wharf to his first  
meeting as a representative for Dorset County Council.

## **Appointment of Vice-Chairman**

### Resolved

79. That Mike Byatt be elected Vice-Chairman for the remainder of the year  
2015/16.

**Public Participation**Public Speaking

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

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

Petitions

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

**Pension Fund Annual Report 2014/15**

82. The Chief Treasury and Pensions Manager presented the annual report to the Committee. He explained that as the report for 2014/15 was significantly longer than the report for 2013/14, due to revised CIPFA guidance, it was intended to publish on the Pension Fund website only and not in printed format.

**Resolved**

83. That the Pension Fund Annual Report 2014/15 be approved for publication on the Fund website.

**Funding Update Report**

84.1 The Committee received a report from the Fund's Actuary, Barnett Waddingham, which provided an update on the funding position of the Fund. The Actuary reported that overall progress against the target set at the last triennial review was reasonably on track, and that contributions for the larger employers were predicted to be unchanged at the next triennial review, subject to unforeseen changes in markets.

84.2 The Independent Adviser asked if it was likely that at the next triennial review the 25 year deficit recovery period would be reduced. The Actuary replied that reduction of the deficit period was a long term objective, but that the Fund may not yet be able to do this without increasing contribution rates.

84.3 The Independent Adviser noted that different firms of actuaries used different methodologies to value deficits, making comparison of funds difficult, and that the Committee needed to be aware of the risk to the Fund if Government insisted on a consistent approach. The Chief Treasury and Pensions Manager and the Actuary advised that, due to their involvement with the Scheme Advisory Board, they were aware of Government thinking, and this was very unlikely.

84.4 The Chairman summarised that the funding position had been below 80%, therefore the funding position was heading in the right direction, but the end of year position was fragile due to market fluctuations. He thanked the Actuary for the presentation and suggested that a training session and fuller discussion of the issues relating to actuarial valuations be arranged closer to the completion of the next triennial valuation. The Chief Treasury and Pensions Manager agreed.

**Resolved**

85. That the Chief Treasury and Pensions Manager arrange an actuarial valuation training session closer to the completion of the next triennial valuation.

**LGPS Update – Pooling Investments**

86.1 The Committee considered a report by the Pension Fund Administrator that gave an update on the Government's requirements for LGPS funds to pool investments and

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.

86.2 The Chief Treasury and Pensions Manager reported that Government's criteria for measuring proposals were published on 25 November 2015, with a deadline to submit outline proposals late February 2016. He stated that one of the Government's criteria was a minimum size of pooled assets at £25 billion, and that the South West funds totalled approximately £18 billion, with one or two other funds interested in joining. He said that there would need to be an extraordinary meeting of the Committee to approve the proposals before submission to Government in mid to late January 2016.

86.3 The Chief Treasury and Pensions Manager reiterated to members that, under the proposals, the Committee would retain responsibility for setting the strategy and asset allocation of the Fund, but investment managers would be appointed through the pooling vehicle.

86.4 The Chairman stated that communications between the pooling vehicle and the Committee needed to be right, and he stressed the importance of the Local Pension Board's oversight role. The Chief Treasury and Pensions Manager agreed that governance and communications needed to be appropriate, and that this would need to be addressed in working up the details of the proposed pooling arrangements.

86.5 The Chairman said how useful it had been for the Committee members to meet with the LGA and CLG representatives at the training day on 25 November 2015, and that it would be beneficial to welcome them back at a future date. The Chief Treasury and Pensions Manager agreed, and added that the LGA and CLG had worked hard on behalf of the LGPS throughout this process. The Fund Administrator added that the Chief Treasury and Pensions Manager and his equivalents at the other South West funds had worked hard to develop the pooling proposals so far.

### **Resolved**

87.1 That an extraordinary meeting of the Committee be set up for mid to late January 2016.

87.2 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.

### **Wellington Asset Management**

88.1 The Committee received a presentation from Tim Sutton and Nicola Staunton from Wellington Asset Management, one of the Fund's newly appointed Global Equity managers. Mr Sutton explained that their approach was based on the research of Global Industry Analysts, who typically focussed on one sector for their entire career, with many coming from an industry background. He added that each analyst was responsible for a percentage of the portfolio equal to the percentage of the benchmark, with complete flexibility for stock selection and investment 'style' within their allocation of the portfolio.

88.2 Ms Staunton reported that the portfolio held approximately 300 stocks, and aimed to return 1.5% to 2.0% above the benchmark, with an information ratio (return per unit of risk) above 0.5, which should give a consistent out-performance over time. The Independent Adviser believed that this was a relatively conservative approach that should nicely complement the other two new Global Equity managers.

88.3 The Chief Treasury and Pensions Manager asked in what circumstances Wellington Asset Management's approach would not work so well. Mr Sutton replied that

their “focus on fundamentals” approach might lag the benchmark when markets were “frothy” and if all stocks in a sector rose indiscriminately.

### **Noted**

#### **Fund Administrator’s Report**

89.1 The Committee considered a report by the Pension Fund Administrator on the allocation of assets and overall performance of the Fund up to 30 September 2015.

89.2 The Independent Adviser presented Appendix 2 and provided a commentary on the investment outlook, and how it was likely to affect each asset class. He said that it was expected that the Federal Reserve would raise US interest rates in December 2015, which could lead to a strengthening of the US Dollar that in turn could impact adversely on Emerging Markets but his view was that a gradual, measured rise was factored into markets. He added that consensus opinion was that the first increase in UK base rates was now expected in the third quarter of 2016, with rates gradually rising to about 2.0% by 2018. His opinion was that the UK was close to the point when rates should be increased.

89.3 The Independent Adviser highlighted the key risks to the valuation of the Fund’s assets as (1) the result of the UK referendum on EU membership, with a “no” vote leading to vulnerability in sterling and gilts, (2) further falls in Emerging Market valuations, (3) the risk of another financial shock and (4) reduced liquidity in credit markets. He commented that the last legs of the property bull market should continue into 2016, but there was little expectation of growth in other asset classes, and continuing volatility in markets was also expected.

89.4 A member asked about the two risks that been discussed at previous meetings of the Committee, (1) the slowdown of growth in China and (2) the debt management problems in Greece. The Independent Adviser replied that the position in China continued to be a big concern but markets now considered the problems of Greece to be of relatively small consequence.

89.5 The Chief Treasury and Pensions Manager informed members that the Global Equity Managers transition was on track to take place in mid December 2015.

89.6 A member asked whether the Fund held sufficient cash to fund the anticipated drawdown by IFM discussed at the training day on 25 November 2015. The Chief Treasury and Pensions Manager replied that this was not expected to be a problem as, in addition to existing cash balances, it was anticipated that there would be a significant residual cash balance from the sale of assets managed by the outgoing managers after the new Global Equity managers were funded.

89.7 The Chairman explained to new members of the Committee that all investment managers were subject to regular formal three yearly reviews, as well as quarterly reporting to Committee, but investment managers could be called in at other times if there were serious concerns regarding performance.

### **Resolved**

90. That no additional changes be made to asset allocation at this time.

#### **Property Portfolio**

91.1 The Committee received a report from James Clifton-Brown and Ian Wilson from CBRE Global Investors on the Fund’s property investments.

91.2 Mr Clifton-Brown highlighted that the vacancy rate had increased due to a number of leases expiring in close succession but was now coming down. Mr Wilson added that there were now only two unoccupied properties in the portfolio, (1) Unit D, Woolborough Lane Industrial Estate, Crawley and (2) The Logistics Centre, Green Lane, Heathrow. He said that the former was 'under offer' and that he was confident the latter would be let shortly because of its desirable location, close to Heathrow airport.

91.3 Mr Wilson commented that forecast returns for the portfolio were 12% this year, 10% next year, falling to 3-4% 2018 onwards.

91.4 A member asked why a high proportion of the portfolio was located in London and the South East of England. Mr Clifton-Brown replied that this was because this area was very densely populated and was where demand for property was highest.

91.5 A member asked if the manager thought that a vote for the UK to leave the EU would adversely impact UK property prices. Mr Clifton-Brown replied that it was likely to have a negative impact in the short-term, but probably not in the longer term.

91.6 The Chairman asked if there had been any progress in resolving the issues with the planning permission for the proposed development of 270 Cambridge Science Park. Mr Wilson replied that this matter had taken longer than anticipated but he was confident that this would be resolved shortly.

### **Noted**

#### **Corporate Bond Portfolio**

92.1 The Committee considered a report from James Stoddart and Jonathan Platt from Royal London Asset Management (rlam) on the Fund's Corporate Bond portfolio.

92.2 Mr Platt explained that rlam took very active decisions on the sectors to invest in and looked to exploit areas of inefficiency in pricing, particularly in relation to the security of debt. He added that rlam expected UK base rates to rise in 2016, that the outlook for gilts was negative and for corporate bonds was positive but unspectacular.

92.3 The Fund Administrator asked why one of the bonds in the portfolio had a fixed income rate of 0%. Mr Platt replied that there was no income from such bonds but they were priced at a discount, so on maturity the bond holder would receive more than the original price paid.

### **Noted**

#### **Liability Matching Portfolio**

93.1 The Committee received a report from Gary Wilkinson and Paul Richmond of Insight Investment on the Fund's liability matching portfolio.

93.2 The Independent Adviser commented that whilst short term inflation expectations were low, longer term expectations were for higher inflation. A member asked whether it would therefore be beneficial to hedge more of the Fund's assets. The Chief Treasury and Pensions Manager replied that a balance between growth seeking assets and liability matching assets needed to be struck but that this would be reviewed as part of the overall review of strategy, intended to take place after the results of the next triennial valuation were known.

### **Noted**

**UK Equity Portfolio**

94.1 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.

94.2 The Chief Treasury and Pensions Manager commented that since the decision at the last meeting of the Committee to reappoint Standard Life to manage UK equities for a further two years, because of subsequent under-performance, the manager would be kept 'on watch' and subject to close monitoring of performance.

**Noted****Pensions Administration**

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

95.2 The Chief Treasury and Pensions Manager highlighted the Government's intention to impose a £95,000 limit on the total value of payments made in connection with the termination of a public sector worker's employment. Members asked for clarification of how this would work, what would happen if the cap was exceeded and how cost would be allocated between employers and Funds. The Chief Treasury and Pensions Manager replied that the Pension Fund Administration Manager would attend the next meeting of the Committee to answer questions on this subject.

**Noted****Dates of Futures Meetings****Resolved**

96. That meetings be held on the following dates:

28 January 2016	Town Hall, Bournemouth
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**

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

Meeting Duration 10.00am to 12.53pm