Pension Fund Committee

Minutes of the meeting held at County Hall, Dorchester
on 1 March 2016

Present:
John Beesley (Chairman)
Mike Byatt (Dorset County Council) (Vice-Chairman), Andy Canning, Ronald Coatsworth,Mike Lovell (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), David Wilkes (Finance Manager – Treasury and Investments) and Martin Riglar (Investment Technician).

Manager and Advisor Attendance
Alan Saunders (Independent Adviser).

(Notes: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 Pension Fund Committee to be held on **Friday, 1 July 2016**.)

Apology for Absence
13 An apology for absence was received from Peter Wharf (Dorset County Council).

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

Minutes
15 The minutes of the meeting held on 28 January 2016 were confirmed and signed.

Matters Arising
16 Minute 5.3 – Fund Administrator's Report
The Committee were informed that planning permission for the proposed development of 270 Cambridge Science Park had been agreed by Cambridge County Council.

Public Participation
17 Public Speaking
There were no public questions received at the meeting in accordance with Standing Order 21(1).

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

Petitions
There were no petitions received at the meeting in accordance with the County Council's Petition Scheme.

Treasury Management Strategy
18 The Committee considered a report by the Fund Administrator setting out the Treasury Management Strategy (TMS) for 2016/17. The Finance Manager (Treasury and Investments) explained that the TMS for 2016/17 was unchanged from the TMS

for the current financial year and was the same as for the County Council, with some different limits to reflect the different expected cashflows.

The Independent Adviser asked if the Fund was able to invest in Money Market Funds (MMFs) which could give returns approximately 2% above London Interbank Offered Rate (LIBOR). The Chief Treasury and Pensions Manager replied that the Fund did invest in overnight MMFs but these only returned approximately 50 basis points (bps). The Chairman suggested that the Independent Adviser speak to the Fund Administrator about these potential additional opportunities for cash investments.

A member asked if the Fund's cash balances were still effectively 'under-written' by the County Council, as they had been at the time of the Icelandic banks crisis. The Chief Treasury and Pensions Manager replied that this was now not the case as Fund balances were no longer co-mingled with County Council balances.

A member asked if cash would be pooled in the Brunel Collective Asset Pool. The Chief Treasury and Pensions Manager replied that the detail of this was not yet agreed, but individual funds would still need to hold some cash balances for transactional purposes, such as payments to pensioners.

Resolved
That the Treasury Management Strategy for 2016/17 be agreed.

Pensions Administration

19 The Committee received a report by the Pension Fund Administrator on matters relating to the administration of the Fund.

The Chief Treasury and Pensions Manager highlighted the Local Government Association's response to the consultation on 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. He also informed members that the Fund had agreed to join a framework run by Northumberland County Pension Fund for the re-procurement of the Fund's administration software.

The Chief Treasury and Pensions Manager highlighted the underperformance of a large number of the Key Performance Indicators (KPIs). He explained that this had coincided with the restructure of the Benefits Administration Team and resulting recruitment freeze, and the office relocation of the Team. He also informed members that transactions handled by the Team in the financial year to date exceeded the whole of the previous financial year by 55%, largely due to the number of restructures being undertaken by the Fund's employers. He also informed members that funds did not publish their KPIs and the Fund did not know how it compared to other funds. The Chairman requested a comprehensive update on performance at the next meeting on 1 July 2016.

A member asked if the Fund was on top of the changes to rules relating to elected members, including preservation of the rights for widows. The Chief Treasury and Pensions Manager explained that no new elected members were allowed to join the LGPS and existing elected members could remain active members until their next election, after which they would become deferred members with all other rights protected. He confirmed that the Fund kept full records for all members of the scheme.

Noted

Fund Administrator's Report

20 The Committee considered a report by the Pension Fund Administrator on the

allocation of assets and overall performance of the Fund up to 31 December 2015.

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 markets had calmed since his report was written but the outlook was still not positive. There had been a slowing in economic growth driven by China attempting to rebalance from investment to consumption, the continued slowdown in Emerging Markets (except India) and a fall back in world trade growth. Central bankers had adjusted their strategies to reflect changing market conditions and the first increase in UK base rates was not now expected until 2017 because of a slowing in UK growth and wage growth, despite high levels of employment.

The Independent Adviser said that an 'out' vote in the forthcoming UK referendum on EU membership would lead to selling of gilts and sterling. He said that he expected sterling to weaken against the dollar and the Euro, but the Euro was also likely to weaken against the dollar.

The Independent Adviser's expectations for 2016 were that equities would outperform bonds, unless there were any further scares in markets, and that UK commercial property would outperform equities for the last year. A member asked about the Fund's exposure to retail property as he had seen a report predicting a very significant reduction in the demand for retail outlets. The Finance Manager (Treasury and Investments) commented that details of all the Fund's property investments by sector were included in Appendix 3 to the report from CBRE, later on the agenda.

The Fund Administrator highlighted that the Fund had outperformed its benchmark and the LGPS average over the 12 months, three years and five years to 31 December 2015. He said that the Global Equity Managers transition had gone well and he thanked Legal & General Investment Management (LGIM), the transition manager, for their help with the process. The Chief Treasury and Pensions Manager added that the transition involved total transactions of nearly £1 Billion, and that LGIM had been able to secure significantly greater savings on transition costs than if the transition had been managed in-house.

The Independent Adviser asked if the difference in performance by the two Private Equity Managers was due to their relative exposures to dollars and Euros. The Chief Treasury and Pensions Manager replied that this was partly the case but that this would be investigated further and clarified.

The Chief Treasury and Pensions Manager informed members that representatives of Project Brunel had recently met with Treasury officials. The feedback had been generally positive but the Treasury officials sought clarity on the proposed governance arrangement and on the level of commitment to invest in infrastructure. He added that he and the Chairman had met with Sir Merrick Cockell, Chairman of the London Pension Fund Authority, who was trying to develop a 'clearing house' for infrastructure projects proposed by Government that may be suitable for LGPS investment.

The Committee noted that the Oxfordshire and Buckinghamshire funds had joined Project Brunel, increasing the size of the pool to approximately £23 Billion. Although this was still slightly below the Government's target of £25 Billion the feedback from the meeting with Treasury officials was that this should not be a concern.
The Chairman told members that the first meeting of the Shadow Oversight Board for Project Brunel was on 22 March 2016. It was agreed that the Chairman and the Chief Treasury and Pensions Manager would attend this meeting and report back to members.

The Independent Adviser asked if cash balances accrued in the Fund presented an opportunity to equalise the allocation between UK and overseas equities. The Chief Treasury and Pensions Manager replied that the recommendations for allocating surplus cash would achieve that. It was agreed to change the target allocation for UK Equities from 27.5% to 26.25% and the target allocation for Overseas Equities from 25% to 26.25%.

Resolved

(i) That the activity and overall performance of the Fund be noted.
(ii) That the comments on future private equity allocations be noted.
(iii) That the Fund invests £35 Million in UK equities.
(iv) That the Fund invests £15 Million with Insight Investments, subject to resolving the outstanding issues.
(v) That the Chairman represent the Fund on the Project Brunel Shadow Oversight Board.
(vi) That the target allocations for UK Equities and Overseas Equities be equalised at 26.25% each.

Currency Hedging

21 The Committee considered a report by the Fund's investment consultants, JLT, regarding the impact of the forthcoming EU referendum on the Fund's currency hedging programme. The report concluded that the Fund's current 50% hedging position against the major overseas currencies should remain 'as is'.

A member asked if, given the uncertainty created by the EU referendum, it would be prudent to remove foreign currency exposure completely for the next few months by temporarily increasing the hedging ratio to 100%. The Independent Adviser replied that he would advise against doing so as market expectation was that sterling could fall further against the dollar, Euro and other currencies, in which case increasing the hedge would have an adverse impact on the Fund.

The Chief Treasury and Pensions Manager commented that the current hedging strategy had been in place for approximately 10 years, but it could be reviewed as part of the overall review of strategy that would take place later in the year.

Resolved

That no changes be made to the currency hedging strategy at this time.

Manager Reports

22 (a) CBRE Global Investors

The Committee considered a report from CBRE Global Investors, the Fund's Property Manager. The Finance Manager (Treasury and Investments) informed members that as planning permission for the proposed development of 270 Cambridge Science Park had been agreed this would have a positive impact on the next valuation of the portfolio at 31 March 2016. He also highlighted the difference in performance between the directly owned portfolio and the holdings in pooled funds. He said that the pooled funds were invested in the retail sector which had performed less well than other sectors, such as offices and industrial property.

A member requested a full table of expiry dates for tenancies on all of the Fund's properties and a member asked if, in future, the reports could be produced in colour. The Chief Treasury and Pensions Manager agreed to both these requests.

Noted

(b) Insight Investment

The Committee considered a report from Insight Investment, who had the mandate for the liability matching strategy. The Chief Treasury and Pensions Manager reported that he and the Independent Adviser were in the process of resolving some presentational issues with Insight Investment.

Noted

(c) Royal London Asset Management (rlam)
The Committee considered a report from Royal London Asset Management (rlam) on the Corporate Bond portfolio, which showed continued good performance over the longer term.

Noted

(d) UK Equity Report
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 informed members that the contract for stock lending income had been renegotiated and the Fund would receive increased revenue in 2016/17.

Noted

Dates of Future Meetings

23 **Resolved**

That meetings be held on the following dates:

1 July 2016	Town Hall, Bournemouth
8 September 2016	County Hall, Dorchester
23/24 November 2016	London (to be confirmed)

Questions

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

Exclusion of the Public

25 **Resolved**

That under Section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the business specified in minute 26 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.

Review of UK Equity Management Arrangements (Paragraph 3)

26 The Committee considered an exempt report by the Pension Fund Administrator that set out proposed changes to the UK Equity Management Arrangements. Members of the Committee discussed the report and a number of questions were raised.

Resolved

(i) That the Standard Life mandate be terminated and the funds allocated as described in paragraph 3.1 of the report.

(ii) That the additional £35 Million be allocated as described in paragraph 3.2 of the report.

Meeting Duration: 10.00 am - 12.30 pm