



## Pension Fund Committee

Minutes of the meeting held at County Hall, Colliton Park, Dorchester, Dorset, DT1 1XJ on Monday, 12 September 2016

### **Present:**

John Beesley (Chairman)

Mike Byatt, Andy Canning, Ronald Coatsworth, Mike Lovell, Peter Wharf, May Haines, John Lofts and Johnny Stephens (Scheme Member Representative).

Officer Attendance: Richard Bates (Chief Financial Officer), Tom Wilkinson (Children's Services Group Finance Manager), Anne Weldon (Pensions Benefits Manager) and David Wilkes (Finance Manager).

### Manager and Advisor Attendance

Harry Mears (KPMG, Auditor), Graeme Muir (Barnett Waddingham, Actuary), Alan Saunders (Independent Adviser) and Peter Scales (Governance 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 **Thursday, 24 November 2016.**)

### **Apologies for Absence**

45 No apologies for absence were received.

### **Code of Conduct**

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

### **Minutes**

47 The minutes of the meeting held on 1 July 2016 were confirmed and signed.

### **Matters Arising**

#### Minute 32 – Statement by the Chairman

The Fund Administrator updated the Committee on temporary management arrangements following the departure of the Chief Treasury and Pensions Manager in August 2016 and ahead of other changes expected shortly in the Chief Executive's Department. He informed the Committee that Tom Wilkinson, Group Finance Manager – Children's Services, would be acting as Interim Chief Treasury and Pensions Manager on a temporary basis for two days a week.

#### Minute 44 – Investment Reform and Pooling (Project Brunel)

The Fund Administrator told members that the temporary management arrangements would mean Dorset contributing less officer resource to Project Brunel but that this would be replaced by additional external project support.

A member raised a concern that the temporary management arrangements could result in the Fund losing influence over the final Project Brunel proposals. The Fund Administrator informed members that Dorset would continue to be represented on the three main project groups – Shadow Officer Group (SOG), Shadow Operations Board (SOB) and Finance, Legal and Governance (FLAG). The Chairman added that he

was one of the SOB's two vice-chairmen. The Interim Chief Treasury and Pensions Manager added that he also took part in a weekly project update conference call with officers from the other Project Brunel funds.

A member asked if the costs of Project Brunel were borne by the funds or the taxpayer. The Chairman confirmed that the costs were borne by the funds, and that details of the level of cost in establishing pools had been fed back to the government. The Fund Administrator added that there will be significant transition costs in establishing the pool, and a number of years before break-even but thereafter significant savings to the Fund were expected.

The Vice-Chairman asked if officers would be writing a report to County Council, and if yes, could it be shared with the Committee. The Fund Administrator replied that a Final Business Case report was being written by officers for approval by County Council and that this would be shared with the Committee. He explained that some elements of this report would be common to all Project Brunel funds and other parts would be specific to the Dorset Fund.

Members agreed that the Committee needed a formal standing agenda item for future meetings to discuss Project Brunel. The Chairman said that the next Project Brunel update newsletter would be issued very shortly. The Interim Chief Treasury and Pensions Manager added that there was a training/update event open to all members of each Project Brunel fund's Pension Fund Committees (or equivalents) and Local Pension Boards at Exeter Racecourse, 11am to 12.30pm Friday 7 October 2016.

### **Public Participation**

#### 48 Public Speaking

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

There were no public questions 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.

### **Report to those charges with Governance (ISA 260) 2015/16**

49 The Committee considered a report from Harry Mears, KPMG, the Fund's Auditor. The Auditor reported that the audit was very close to completion, no material issues had been identified, and it was anticipated that an unqualified audit opinion on the financial statements for 2015/16 would be issued.

The Chairman thanked the Finance Manager (Treasury and Pensions) and Charlotte Peach, Accountant (Treasury and Pensions), for their efforts in completing the accounting statements following the recent sad loss of Gus Stout, Pension Fund Accountant.

### **Noted**

### **2016 Actuarial Valuation**

50 The Committee received a presentation on the 2016 actuarial valuation from Graeme Muir, Barnett Waddingham, the Fund's Actuary. The Actuary shared indicative results of the valuation but said that the valuation was not yet complete and he explained how the introduction of Section 13 'comparator' valuations by the Government Actuaries Department (GAD) had added an extra challenge to the process. The Actuary said that the final results of the valuation would be available for the next meeting of the Committee, 24 November 2016.

## **Noted**

### **Pension Administration**

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

The Pensions Benefits Manager highlighted the substantial improvement in performance over the quarter against the Key Performance Indicators (KPIs), and she confirmed that Annual Benefit Illustrations (ABIs) had been issued to all members by the deadline of 31 August 2016. She informed the Committee that the backlog of cases had however increased, largely because the Government had not yet issued the amendments to regulations required to deal with aggregation cases.

The Chairman thanked the Pensions Benefits Manager and her team for the significant uplift in completed cases and KPI performance since the last report.

## **Noted**

### **Voting Activity**

- 52 The Committee received a report by the Pension Fund Administrator on the Fund's voting activity in relation to the equities directly owned by the Fund and in pooled investments.

## **Noted**

### **Investment Management Arrangements**

- 53 The Committee received a report by the Pension Fund Administrator reviewing Fund Management arrangements. The Interim Chief Treasury and Pensions Manager explained that the Fund's managers were subject to formal triennial review by the Committee, and that the Fund's property manager, CBRE Global Investors, was the only fund manager due for review at this time.

The Independent Adviser commented that the performance of the manager had been good. A member added that he felt the strategy followed by CBRE had worked well for the Fund.

## **Resolved**

That CBRE be reappointed for review in three years' time.

### **Fund Administrator's Report**

- 54 The Committee considered a report by the Pension Fund Administrator on the allocation of assets and overall performance of the Fund up to 30 June 2016.

The Independent Adviser presented his report at Appendix 2 of the report and provided a commentary on the investment outlook, and how it was likely to affect each asset class. He commented that most markets had settled down since the immediate impact of the result of the EU referendum, but subsequent economic data had been mixed and a long period of protracted uncertainty was expected whilst the terms of exit were negotiated. He added that the Bank of England anticipated a reduction in UK GDP of about 1% annually over the next two years, and an increase in inflationary pressures as a result of the fall in the strength of sterling.

The Independent Adviser said that the bull market in Property appeared to be at an end but that there were signs that the bear market in Emerging Markets could be turning. His view was that there could be a weak set of investment returns over the next 12 months. A member commented that during this period of uncertainty and low expected returns, the Fund should take a more cautious approach to investment decisions including allowing cash balances to build up to higher levels than previously held.

A member asked the Independent Adviser about the impact of the currency hedging strategy post EU referendum result. The Independent Adviser replied that the Fund was 50% hedged against the value of equities held in foreign currencies (compared to the orthodox position of 75%), therefore whilst settlement of the currency hedges at 30 June were a significant draw on cash balances, overall the Fund had increased in valuation as a result of currency movements post EU referendum.

A member asked the Independent Adviser about the risks associated with the forthcoming US presidential elections. The Independent Adviser responded that markets were nervous about a win for Donald Trump because he was seen as favouring a more protectionist position for the US, with likely adverse consequences for world trade.

The Chairman asked the Independent Adviser what strategy the Fund should be following with its Property investments given the outlook for this asset class. The Independent Adviser replied that the Fund was currently slightly overweight in Property, and he suggested that the Fund should be actively looking for opportunities to dispose of any 'weak holds', but he felt it was unlikely the strategic allocation to Property of 10% would be changed.

The Chairman asked the Fund Administrator whether a review of the strategic allocation to asset classes was needed. The Fund Administrator replied that such a review would be undertaken shortly after the results of the triennial valuation were known. A member asked if the strategic review would look at other opportunities besides existing asset classes. The Independent Adviser replied that previous strategic reviews had led to allocations to new asset classes such as Private Equity and Infrastructure.

The Fund Administrator highlighted that the Fund had lost a useful performance comparator following State Street's decision to discontinue providing LGPS average return information. He said that LGPS National Frameworks had been asked to procure a replacement provider, but as an interim measure average returns across Project Brunel funds could be used.

#### **Resolved**

1. That the activity and overall performance of the Fund be noted.
2. That no changes to asset allocation be made at this time.

#### **Governance Compliance Update**

55 The Committee received the annual report from the Independent Governance Adviser. He reported that he was satisfied that since his last report June 2015 governance standards have been maintained and improved.

#### **Resolved**

1. That consideration is given to bringing forward the closing process for the Fund annual accounts.
2. That the information on the Fund's website relating to the Local Pension Board is kept up to date.
3. That the Scheme Advisory Board website is checked regularly for information published about the Fund and is updated as necessary.
4. That the CIPFA guidance on governance for the oversight of pools is reviewed when available.
5. That the revised investment regulations are reviewed as soon as they become available.

#### **Manager Reports**

56 (a) UK Equity Report

The Committee considered a report by the Finance Manager (Treasury and Pensions)

which highlighted the performance of the internally managed UK equities portfolio, the AXA Framlington Fund and the Schroders Small Cap Fund. The Finance Manager (Treasury and Pensions) highlighted the poor absolute and relative performance of AXA for the quarter, which in turn had adversely affected their long term performance figures. He explained that this had primarily been a result of the EU referendum, as AXA have a high mid cap bias relative to benchmark and were therefore adversely affected by the sell-off seen in the FTSE 250. He reported that the AXA fund had recovered significant ground in the two months to 31 August 2016.

(b) Allianz Global Investors

The Committee considered a report from Allianz Global Investors, who were appointed to the Smart Beta Global Equities mandate in December 2015. The Independent Adviser suggested that for future quarters, officers should produce a summary report for all Global Equities managers in replace of individual manager reports from Allianz, Investec and Wellington. Members and officers agreed to this suggestion.

(c) Investec Asset Management

The Committee considered a report from Investec Asset Management, who were appointed to the active Global Equities mandate in December 2015.

(d) Wellington Investment Management

The Committee considered a report from Wellington Investment Management, who were appointed to the active Global Equities mandate in December 2015.

(e) Royal London Asset Management (rlam)

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

(f) CBRE Global Investors

The Committee considered a report from CBRE Global Investors, the Fund's Property Manager. The Interim Chief Treasury and Pensions Manager highlighted the manager's comments that valuations as at 30 June were likely to be somewhat overstated because the impact of the EU referendum vote had not been fully factored in.

(g) Insight Investment

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

**Noted**

**Dates of Future Meetings**

57 **Resolved**

That meetings be held on the following dates:

23/24 November 2016	Insight offices, London (to be confirmed)
1 March 2017	County Hall, Dorchester
20/21 June 2017	London (to be confirmed)
7 September 2017	County Hall, Dorchester
22/23 November 2017	London (to be confirmed)

**Questions**

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