



Pension Fund Committee

Minutes of the meeting held at Insight Investments,
Queen Victoria Street, London on Thursday, 24
November 2016

Present:

John Beesley (Bournemouth Borough Council) (Chairman)
Mike Byatt (Dorset County Council) (Vice-Chairman)
Andy Canning, Mike Lovell, Peter Wharf (Dorset County Council) and John Lofts (District
Council Representative).

Officer Attendance:

Richard Bates (Fund Administrator), David Wilkes (Finance Manager) and Tom Wilkinson
(Interim Chief Treasury and Pensions Manager).

Manager and Advisor Attendance:

Graeme Muir (Barnett Waddingham, Actuary), Alan Saunders (Independent Adviser), James
Clifton-Brown, Ian Wilson (CBRE Global Investors), Gary Wilkinson, Diane Stanning (Insight
Investments), James Stoddart, Jonathan Plat, Paola Binns (Royal London Asset
Management), Joanne Wheatley and Ralph Karels (Allianze Global Investors).

(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 **Monday, 9 January 2017.**)

Apologies for Absence

59 Apologies for absence were received from Ronald Coatsworth (Dorset County
Council), May Haines (Borough of Poole) and Johnny Stephens (Scheme Member
Representative).

Code of Conduct

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

Minutes

61 The minutes of the meeting held on 12 September 2016 were confirmed and signed.

Matters Arising

62 Minute 47 – Investment Reform and Pooling (Project Brunel)
Members agreed that the Committee needed a formal standing agenda item for future
meetings to discuss Project Brunel, and an additional meeting be held on 9 January
2017 to consider the Full Business Case.

Public Participation

63 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.

Pension Fund Annual Report 2015/16

64 The Committee received the Annual Report for 2015/16 from the Fund Administrator. The Finance Manager (Treasury and Pensions) confirmed that the report would be posted on the Fund's website.

Noted

2016 Actuarial Valuation

65 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, updated from the presentation he gave to the last meeting of the Committee on 12 September 2016. He explained that the results showed the overall position for the Fund and that individual rates for each Fund employer would need to be certified by 31 March 2017 at the latest.

The Actuary said that the average employer's contribution rate (including deficit contribution) was expected to increase from 18.6% at the last valuation to approximately 21%. He summarised the main reasons for the increase as a reduction in the discount rate from 6.0% to 5.4% due to a more pessimistic outlook for investment returns than at the last valuation, a reduction in the deficit recovery period from 25 to 22 years, and significantly lower than anticipated take up of the 50/50 option by scheme members. He also highlighted the need to show an improved funding level driven by the likely Section 13 comparison work undertaken by the Government Actuaries Department (GAD).

The Fund Administrator commented that contributions would need to increase but in a stepped way. The Chairman suggested that the Fund Administrator discuss with the Actuary and circulate a proposal for annual stepped increase to members. It was agreed that this proposal should be added to the agenda for the additional meeting of the Committee on 9 January 2017.

Resolved

That a proposal for stepped annual increases in employer contribution rates be prepared for consideration at the additional meeting of the Committee on 9 January 2017.

Property Portfolio (CBRE)

66 The Committee considered a report from James Clifton-Brown and Ian Wilson, CBRE Global Investors, the Fund's property manager. Mr Wilson agreed to produce a report updating progress and risks relating to the Cambridge Science Park development project.

The Chairman thanked CBRE for the training session they provided for Committee members on 23 November 2016.

Resolved

That CBRE produce a report updating progress and risks relating to the Cambridge Science Park development project.

Liability Hedging Portfolio (Insight Investments)

67 The Committee considered a report from Gary Wilkinson and Diane Stanning, Insight Investments, who had the mandate for the liability matching strategy. Mr Wilkinson highlighted the forthcoming regulatory changes leading to a requirement for a clearing house for inflation swaps, the resulting daily collateral requirements and margin payments on currency hedging transactions. It was agreed that Insight Investments would produce a report for discussion at the additional meeting of the Committee on 9

January 2017.

The Chairman thanked Insight Investments for hosting the Committee meeting and for the training sessions provided for Committee members 23 November 2016.

Resolved

That Insight Investments produce a report on the impact of regulatory changes to inflation swaps and foreign exchange hedging to be discussed at the additional meeting on 9 January 2017.

Corporate Bond Portfolio (RLAM)

68 The Committee considered a report from James Stoddart, Jonathan Platt and Paola Binns, Royal London Asset Management (RLAM) on the corporate bond portfolio. Mr Platt said that he believed that long term interest rates had reached their low point and would start rising. However he did not expect rates to return to previous 2000 to 2007 levels because world growth was still not particularly strong and political pressures in Europe were growing and returning to the fore.

The Independent Adviser asked about the current quarter's performance and Mr Platt replied that it had been a strong quarter to date, showing a reversal against previous quarters. He added that RLAM's strategy was targeting less liquid asset backed investments, and was moving away from positioning against the benchmark.

Noted

Global Equities Portfolio (Allianz)

69 The Committee considered a report from Joanne Wheatley and Ralph Karels, Allianz Global Investors, who were appointed to the smart beta global equities mandate in December 2015. Ms Wheatley described Allianz as an active manager looking to take positions and that performance had been improving against benchmark in a challenging environment.

Mr Karels reminded members of Allianz's five factor approach of 'Value', 'Momentum', (earnings) 'Revision', 'Growth' and 'Quality', with Value still the core factor. The Independent Adviser added that Value stocks could go in and out of favour, could turnaround quite quickly and that Allianz's approach had performed very well over time.

Noted

Fund Administrator's Report

70 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 2016.

The Independent Adviser presented his report and provided a commentary on the investment outlook, and how it was likely to affect each asset class. He commented that the result of the EU referendum had marked the end of a 34 year bull market in gilts. We would now see an expectation of higher inflation and rising government bond yields, and he questioned whether this would dampen returns from property and equities. The general view was that equities were now quite richly priced. The overall outlook was that economic growth would be sluggish, but positive.

The Fund Administrator highlighted the very strong absolute performance of the Fund's assets over the financial year to date, but he told members that the value of the Fund's liabilities would also have increased over this same period. He highlighted that the Fund had lost a useful performance comparator following State Street's decision to discontinue providing LGPS average return information and that LGPS National Frameworks had been asked to procure a replacement provider.

The Fund Administrator told members that an investment consultant would be engaged to review the Fund's strategic allocation to asset classes shortly after the results of the triennial valuation were known. Members asked that the results of this review be discussed at the March or June 2017 meeting of the Committee.

The Chairman updated the Committee on progress with Project Brunel. He stressed that a key priority of the Shadow Operations Board (SOB) was the containment of costs, both transitional and on-going, including taxation. Members were informed that a meeting to discuss Project Brunel with the Minister for Local Government, Marcus Jones MP, was scheduled for 30 November. He proposed that the Full Business Case for Project Brunel be considered at the additional meeting on 9 January 2017. The Committee would then make recommendations to the County Council's Cabinet as administering authority, on 1 February 2017, with recommendations being considered by the County Council on 16 February 2017.

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.
3. That the results of the review of the strategic allocation be considered at the March or June 2017 meeting of the Committee.
4. That the Full Business Case for Project Brunel be considered at the additional meeting on 9 January 2017 including the proposal on employer contribution rates and to discuss the report from Insight Investments on the changes to call margins and collateral requirements for hedging instruments.

Pensions Administration

- 71 The Committee received a report by the Pension Fund Administrator on matters relating to the administration of the Fund. The Interim Chief Treasury and Pensions Manager informed the Committee that the backlog of aggregation cases had decreased from 1,832 at 1 September 2016 to 1,723 at 31 October 2016, and that the Pensions Benefits Manager would formulate a team plan to address the remaining backlog.

Noted

Other Manager Reports

- 72 (a) UK Equity Report
The Committee considered a report by the Finance Manager (Treasury and Pensions) which summarised 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 that the return from the internally managed passive portfolio was outside the agreed tolerance of +/- 0.5% for the quarter and the financial year to date, although still within this range for the 12 months, 3 years and 5 years ending 30 September 2016. He believed this was a result of volatility in the weeks after the referendum result and expected performance to return within the agreed range in the next quarter. The position would be monitored very closely and internal procedures would be reviewed.

The Finance Manager (Treasury and Pensions) also highlighted the performance of AXA. Although the absolute and relative performance for the quarter had been positive, this had not been sufficient to fully recover from the poor returns of the previous quarter. The Independent Adviser commented that AXA's performance had been adversely affected by their high exposure to domestically focused mid cap stocks relative to their benchmark.

Noted

(b) Global Equities Report

The Committee considered a report by the Finance Manager (Treasury and Pensions) which summarised the performance of the three Global Equities managers Allianz, Investec and Wellington. It had been a good quarter for all three managers in absolute terms and relative to their benchmarks, but the performance of all three managers was still below benchmark since inception in December 2015.

Noted

Dates of Future Meetings for 2017

73 Resolved

That meetings be held on the following dates:

9 January 2017	Town Hall, Bournemouth
1 March 2017	County Hall, Dorchester
21 June 2017	County Hall, Dorchester
13 September 2017 (tbc)	County Hall, Dorchester
22/23 November 2017	London (to be confirmed)

Questions

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

Meeting Duration: 10.00 am - 1.00 pm