Pension Fund Committee

Minutes of the meeting held at County Hall, Colliton Park, Dorchester, Dorset, DT1 1XJ on Monday, 9 January 2017

Present:
John Beesley (Chairman)
May Haines, Mike Lovell, Peter Wharf, John Lofts and Johnny Stephens

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

Manager, Advisor and Others Attendance:
Alan Saunders (Independent Adviser), Gary Wilkinson, Paul Richmond and Robert Chin (Insight Investments).

(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 **Wednesday, 1 March 2017**.)

Apologies for Absence

1 Apologies for absence were received from Mike Byatt, Andy Canning and Ronald Coatsworth (Dorset County Council).

Code of Conduct

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

Minutes

3 The minutes of the meeting held on 24 November 2016 were confirmed and signed.

Public Participation

4 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).

LGPS Investment Reform and Pooling - Approval of the Full Business Case for the Brunel Pension Partnership

5 The Committee considered a report by the Fund Administrator setting out the Full Business Case (FBC) for the Brunel Pension Partnership (BPP). He highlighted the clear legal requirement for Local Government Pension Scheme (LGPS) funds to pool investments, including the provision for the Secretary of State to intervene should funds not meet this requirement satisfactorily. He also reminded members that the feedback from the Department for Communities and Local Government (CLG) on earlier proposals had been that the pooling vehicle must be subject to Financial Conduct Authority (FCA) regulation.

The Fund Administrator told members that the key sensitivity to the Financial Case was the level of estimated savings from investment manager fees. The level of estimated savings had been 'stress tested' by Bfinance, investment consultants, who had extensive knowledge of the market and had worked with the Fund previously. A member asked if the pessimistic scenario of minus 2 basis points (0.02%) was too low. The Fund Administrator replied that he was reasonably confident that the level of savings achieved would be within the sensitivity range set out in the FBC.

The Fund Administrator confirmed that progress on developing BPP was significantly advanced compared to most other pools but the timetable for implementing the FBC was tight. Progress would be reported to the Committee as a standing item on the agenda of all future meetings. It was agreed that the standing item would include details of the five major risks facing the project.

The Independent Adviser commented that the FBC reflected a great deal of good quality work to get to this stage. He also highlighted that the estimated savings needed to be viewed in the context of the size of the deficit. He asked for clarity of the precise legal status of the Collective Investment Vehicle (CIV). The Chairman asked officers to liaise with Osborne Clarke, the project's legal advisers, to provide a detailed explanatory note.

One member noted the significant costs of transition and queried whether central government should be asked for financial support as investment pooling was now a legal requirement for LGPS funds, not a choice. The Chairman confirmed this had been raised with Marcus Jones MP, Minister for Local Government, who had replied that no funding was available from CLG and that funds were effectively 'investing to save'. The Chairman added however that funds would continue to lobby government for an exemption to the application of Stamp Duty Land Tax (SDLT) on the transfer of assets from individual funds to their respective pooled vehicles as this was viewed as an unintended windfall gain for HM Treasury.

The Interim Chief Treasury and Pensions Manager reported that a recruitment agency had been appointed to recruit the chairman of BPP Ltd by March 2017, and two non-executive directors (NEDs) thereafter. A third NED would be appointed at a later date, and would represent the shareholders (the ten member funds). Members requested that the Committee be informed of the process and deadlines for appointing the shareholders' representative NED when known.

One member asked if the staff employed by BPP Ltd would have local government and LGPS experience. The Fund Administrator replied that recruitment to the new company would be open, and not subject to Transfer of Undertakings Protection of Employment (TUPE) regulations. In order to meet the needs of the company, staff appointed were likely to be a mix of those with previous local government and LGPS experience, and those with FCA regulated experience.

On member asked if the IT systems required by the new company would be bespoke or 'off the shelf'. The Fund Administrator anticipated that it would mostly be 'off the shelf' but requirements, such as performance reporting, may require a bespoke solution.

Resolved

1. That the Brunel Pension Partnership investment pool be developed, funded and implemented substantially in accordance with the terms and provisions described in the Full Business Case, and more particularly:

- that a FCA regulated company to be named Brunel Pension Partnership Limited be established, and that the company be operated

- with all necessary and appropriate arrangements as to its ownership, structure, governance and services capability;
- that a new supervisory body comprising representatives of the Council and all other participants in the Brunel Pension Partnership be established to ensure oversight of the Council's investment and participation in the Brunel Pension Partnership;
- that Dorset County Council as administering authority owns a 10% share in Brunel Pensions Partnership Limited.

2. That the Chief Finance Officer and Chief Legal Officer be authorised and granted delegated powers to undertake such tasks as they think appropriate to progress implementation of investment pooling, and to take such decisions and do all things deemed necessary in order to support the Pension Fund Committee and to promote the interests of the Council with respect to pooling, which without limitation shall include informing and advising the Pension Fund Committee on the continued viability and suitability of investment pooling in light of any developments, financial or otherwise, in the period up to the establishment of the Brunel Pension Partnership.
3. That, subject to the above, all such matters be carried out with the aim of achieving a target date for investment pooling of 1 April 2018, and otherwise subject to such intermediate steps and timescales as may be considered appropriate and necessary by the Pension Fund Committee.
4. That there be a standing item on all future agendas to update progress against implementing the Full Business Case.
5. That recommendations 1 to 3 above are reported to Dorset County Council, as administering authority for the Fund.

Governance Changes to Hedging Instruments

6 The Committee considered a report from Gary Wilkinson, Paul Richmond and Robert Chin, Insight Investments, which explained the likely impact for the Fund's investments from forthcoming regulatory changes under European Market Infrastructure Regulation (EMIR).

Mr Chin explained that over-the-counter (OTC) derivatives had historically been traded bilaterally between two parties. Following the 2008 financial crisis, EMIR introduced new requirements for central clearing, collateral and margin payments to address regulators' concerns about the lack of transparency of entities' exposure to OTC risk, how entities mitigate this risk, and systemic risk i.e. the failure of one entity leading to the failure of others.

Mr Chin said that the changes would be introduced for most market participants from March 2017 but pension schemes had an exemption until August 2017, which was expected to be extended until August 2018. He added that although inflation swaps were not currently subject to the new requirements, Insight Investments were preparing for clearing should that be required. There was also a requirement for foreign currency swaps and foreign currency forward agreements to be documented and subjected to collateral payments from March 2017 and January 2018 respectively.

The Finance Manager (Treasury and Pensions) informed members that currency forward agreements were entered into on behalf of the Fund by Banque Pictet, the Fund's custodian for overseas holdings. Banque Pictet had advised that the Swiss Financial Market Infrastructure Act (FMIA), which expressly excludes currency swaps and currency forward transactions from the variation margin requirements, applied to these transactions not EMIR. Following discussion with Insight Investments, the Finance Manager (Treasury and Pensions) had asked Banque Pictet to review this advice and to explain in detail why Swiss regulations and not EMIR were applied to the Fund. The Chairman asked that the Committee be informed if Banque Pictet were unable to satisfactorily confirm the regulatory requirements that applied and meet those requirements accordingly.

A member asked if these regulatory changes would still apply when the UK leaves the EU. Mr Richmond replied that the general expectation was that EMIR would be replicated in UK law.

The Independent Adviser suggested that currency hedging be covered by the forthcoming strategic asset allocation review. The Fund Administrator said that currency and liability hedging would both be covered by the review.

Noted

Proposals for future changes to Employer Contribution Rates

7 The Committee received an update on the results of the triennial valuation from the Interim Chief Treasury and Pensions Manager. He reported that the final results of the valuation had been received on 21 December 2016 and that Graeme Muir, Barnett Waddingham, the Fund's Actuary, had explained that the delay had been primarily caused by the need for Government Actuaries Department (GAD) section 13 comparison work, and some queries with the data provided to the Actuary.

The Interim Chief Treasury and Pensions Manager reported that late notice of the results had presented employers with significant challenges setting their budgets for 2017/18. In order to mitigate this challenge, the Actuary had agreed a stepped increase in contribution rates for some employers, and for those increases to be implemented over a five year, not a three year, period.

The Interim Chief Treasury and Pensions Manager said that Graeme Muir would attend the next meeting of the Committee on 1 March 2017 for a 'wash-up' session to discuss the final results of the valuation, and how to avoid late notification of results for future valuations. Chief Financial Officers for the largest employers would also be invited to attend.

One member asked if there would be any changes to employee contribution rates. It was noted that any changes to employee contribution rates would be made by central government based on the overall funding position of all LGPS funds.

Noted

Dates of Future Meetings

8 **Resolved**

That meetings be held on the following dates:

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

Questions

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

Meeting Duration: 11.00 am - 1.00 pm