# Pension Fund Committee

Minutes of the meeting held at County Hall, Colliton Park, Dorchester, Dorset, DT1 1XJ on Wednesday, 1 March 2017

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

Officer Attendance:
Richard Bates (Chief Financial Officer), Jim McManus (Deputy Chief Financial Officer), Charlotte Peach (Pension Fund Accountant), Anne Weldon (Pensions Benefits Manager), David Wilkes (Finance Manager) and Tom Wilkinson (Interim Chief Treasury and Pensions Manager).

Manager, Advisor and Others Attendance:
Alan Saunders (Independent Adviser), Graeme Muir (Barnett Waddingham, Fund Actuary), Steve Lee and Jonathan Parker (Investec Asset Management).

(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, 21 June 2017**.)

**Apologies for Absence**

10 An apology for absence was received from Trevor Jones (Dorset County Council).

**Code of Conduct**

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

**Minutes**

12 The minutes of the meeting held on 9 January 2017 were confirmed and signed.

**Public Participation**

13 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.

**Review of 2016 Fund Valuation Process**

14 The Committee received a report from the Fund Administrator that gave an update on the progress of the triennial Pension Fund valuation 2016, and 'lessons learned' for future valuations. Graeme Muir, Barnett Waddingham, the Fund's Actuary gave a

summary of the challenges that had been faced in completing the 2016 valuation, and added that these challenges were consistent with those faced by most other LGPS funds.

The Chairman invited the Deputy Chief Financial Officer to comment on behalf of the Dorset Finance Officers Group (DFOG). The Deputy Chief Financial Officer said he was pleased to see the report and the action plan for the next valuation. However, he was concerned that as the next valuation was three years away, the action plan may not be fully implemented, in particular improvements relating to the quality and timeliness of data.

The Actuary replied that employers' data could now be uploaded directly into Barnett Waddingham's systems and was then subject to an automatic 'data cleanse', thus identifying problems with data more quickly. An on-line monitoring tool would also be available for employers. A member asked if there was regular cleansing of employers' data. The Pensions Benefits Manager commented that the team encouraged employers to do this on a quarterly basis and the Committee strongly supported this approach. The Pensions Benefits Manager added that issues relating to data were also raised at the quarterly Pension Liaison Officers Group (PLOG) meetings attended by employer representatives.

The Fund Administrator added that, from a Section 151 Officer perspective, for future valuations he wished to see realistic, prudent expectation management with no nasty surprises. The Actuary agreed but highlighted that the extent of the impact of new oversight arrangements from the Government Actuary's Department (GAD) on this valuation had not really been understood until late 2016.

The Vice-Chairman asked when the Committee needed to timetable implementation of the action plan for the 2019 valuation into the Forward Plan. The Interim Chief Treasury and Pensions Manager replied that an update would be reported to the meeting on 13 September 2017. He added that the timetable for Local Government Reorganisation (LGR), if approved by government, would potentially cause an additional challenge for the next valuation.

The Independent Adviser questioned the statement in the report that the Fund had not performed as well as other funds, as the annualised return for the last three years had been equal to the average return of all LGPS funds, and outperformed the target set at the 2013 valuation. The Actuary clarified that the comparison was with other Barnett Waddingham clients only not all LGPS funds, and that the liabilities of the Fund had increased more than expected when the discount rate was set.

The Vice-Chairman asked if the Fund's assets were generating sufficient returns. The Fund Administrator replied that this was the reason for the review of the Strategic Asset Allocation that was discussed later in the meeting. The Actuary explained that although increased asset prices improved the valuation of the Fund's assets, as the Fund still received net cash contributions from members, increased asset prices also made further investments more expensive and therefore added to the challenge to meet the required rate of return.

**Resolved**

1. That indicative future employer contribution rates be provided by the Fund's Actuary for the years 2020/21 and 2021/22 to provide early planning for medium term financial plans.
2. That employers conduct regular data cleansing reviews to ensure that the data which the valuation would be based on would be clean to aid a smooth process in 2019.
3. That a plan be put in place to ensure a more timely release of future valuation results.

4. That the Committee note the particular difficulties encountered during the 2016 process which were not anticipated in future valuations.
5. That an update on the timetable for the 2019 valuation be provided to the meeting of the Committee on 13 September 2017.

**Brunel Pensions Partnership**

15 The Committee considered a report by the Fund Administrator on the progress to date in implementing the Full Business Case (FBC) for the Brunel Pension Partnership (BPP). The Fund Administrator told members that all ten administering authorities had now approved the FBC and that a letter from Marcus Jones MP, Minister for Local Government, had been received confirming he was content for the pooling proposals to proceed, two of the major risks to the project had therefore been removed.

The Fund Administrator said that a request from the pool had been sent to David Gauke MP, Chief Financial Secretary to the Treasury, 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 other pools were being encouraged to send similar requests. He also highlighted that the detailed process for adding, amending and deleting portfolios was being developed.

The Chairman reported that there had been a meeting of the Shadow Oversight Board (SOB) on 28 February 2017, which he had chaired. He confirmed that SOB provided a high level of scrutiny and challenge on all matters, including appointments and costs, due to the necessity of getting the new pooling arrangements absolutely right. If this resulted in proposals not implemented as quickly as intended, interim measures might be needed. The Chairman also highlighted the comprehensive legal and financial advice provided to the project by Osborne Clarke and PwC respectively.

The Fund Administrator informed members that in addition to monthly meetings of SOB, attended by representatives of all ten pension fund committees or equivalent, there were also regular meetings of the chief financial and legal officers for each fund, the Finance and Legal Assurance Group (FLAG), and the investment officers of each fund, the Client Operating Group (COG).

The Vice-Chairman asked if there was a project timeline up to April 2018. The Fund Administrator replied that there was a detailed timeline that could be incorporated into the report to the next meeting of the Committee.

**Noted**

**Pensions Administration**

16 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 very good performance against the Key Performance Indicators (KPIs) over the most recent quarter, but anticipated some drop in performance reported to the next meeting as the team were entering the busiest period of the year. The Committee were informed that the backlog of cases had decreased substantially since the last meeting and that a project had been set up to continue to reduce the backlog by a target of 30 cases per week.

**Noted**

**Fund Administrator's Report**

17 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 2016.

The Independent Adviser presented his report at Appendix 1 and provided a commentary on the investment outlook, and how it was likely to affect each asset class. His expectation was that momentum in equities would continue although likely to hit headwinds in the second half of 2017, with single digit returns expected for the calendar year, it was unlikely to see further significant movement in sterling, returns from bonds would be lower than equities (possibly even negative returns), and 2-3% returns from property for 2017 and 2018, with some erosion of capital values likely. The Independent Adviser felt that although there was now some clarity of intention on Brexit from the government, there was still a high level of uncertainty about the outcome of the process. He highlighted two significant risks from China to world economic growth - the very large debt burden (higher than in any other major economy) and the continued imbalance between investment and consumer spending.

A member questioned the comment in the Independent Adviser's report that the UK government had decided to leave the single European market, as he believed the government had simply set out an initial negotiating position. The Independent Adviser commented that his report reflected the general interpretation by markets of the government's statements.

A member asked about the results of a recent survey of investor optimism that was very positive. The Independent Adviser felt this reflected the short term positives markets perceived, particularly as a result of expectations of changes in the US and largely already factored into asset prices, such as deregulation, increased government spending and lower taxation, but possibly underplayed the long term potential negatives, such as greater protectionism.

The Fund Administrator highlighted the very strong absolute performance of the Fund's assets over the financial year to 31 December 2016, primarily as a result of the impact of sterling's depreciation on equity prices and the increase in the value of inflation hedging instruments. Members were reminded that the value of the Fund's liabilities would also have increased over this same period because of the same higher inflationary expectations.

The Independent Adviser presented the interim report from Mercer, Investment Consultant, who had been engaged to review the Fund's strategic allocation to asset classes following the results of the 2016 actuarial valuation. The Chairman confirmed that the final report would be discussed and any changes to asset allocation agreed at the next meeting of the Committee on 21 June 2017. He added that any changes would need to take into consideration the Brunel Pension Partnership (BPP) and transition costs.

**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 agreed at the next meeting of the Committee on 21 June 2017.
4. That the Investment Strategy Statement (ISS) March 2017 be approved.

**Manager Presentation from Investec, Global Equity Investments**

18 The Committee considered a report from Steve Lee and Jonathan Parker, Investec Asset Management, who were appointed to the active Global Equities mandate in December 2015. Mr Parker reminded the Committee of Investec's "4Factor" approach, that combined the traditional factors of 'quality' and 'value' that determine asset prices in the long term, with behavioural factors that affect prices in the shorter term, 'earnings' (improving operating performance leading to upwards revisions of profit forecasts) and 'technicals' (increasing investor attention leading to relative share prices trending up). He explained that these four factors were used to screen approximately 3,000 companies in the benchmark 'universe', with more detailed

‘bottom up’ analysis of the remaining approximately 600 companies by sector specialists.

The Independent Adviser asked whether the poor performance relative to benchmark for 2016 was due to the presence of other investment factors not captured by the Investec approach or whether it was the result of poor stock selection. Mr Parker replied that it was roughly an equal combination of the two. He explained that Invetec’s approach looked for investments with all four factors present, whereas markets had been seeking ‘quality’ at almost any price. He added that 2016 had witnessed unusual wide-spread volatility both geographically and in sectors, but he believed that Investec’s approach would deliver benefits to investors over the longer term.

A member asked if Investec had identified any changes to their approach or processes as a result of the under-performance in 2016. Mr Parker replied that their processes were subject to continual review, with two formal ‘off-site’ reviews each year. He did not believe that structural changes were needed to their approach, only incremental improvements. The Chairman added that the Committee were looking for signs of improvement over the coming periods.

**Noted**

**Manager Reports**

19 (a) 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 that the valuation had dropped over the financial year primarily as a result of net sales of assets, and that the vacancy rate was higher than historic levels because of un-let property in Aberdeen. He informed members that the development of Cambridge Science Park was expected to ‘break ground’ in the next few weeks.

**Noted**

(b) Insight Investment

The Committee considered a report from Insight Investment, who had the mandate for the liability matching strategy. The Interim Chief Treasury and Pensions Manager highlighted that the valuation had increased by approximately 70% over the financial year but that liabilities would also have increased over that period. The Independent Adviser added that the leverage ratio had fallen from over four to below three.

**Noted**

(c) Royal London Asset Management (rlam)

The Committee considered a report from Royal London Asset Management (rlam) on the Corporate Bond portfolio. The Interim Chief Treasury and Pensions Manager highlighted the absolute poor performance but relative outperformance in the quarter, and the strong performance (absolute and relative) over the three and five year periods.

**Noted**

(d) 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 inside the agreed tolerance of +/- 0.5% for the quarter, outside for the financial year to date, and inside for the 12 months, 3 years and 5 years ending 31 December 2016. The position would continue to be monitored very closely and internal procedures would be subject to on-going review.

The performance of AXA was also highlighted. The recovery from the poor absolute and relative performance for the quarter ending 30 June 2016 had been minimal in the financial year to 31 December 2016. The Committee agreed to invite AXA to attend the next meeting of the Committee on 21 June 2017 to explain more fully the reasons for the underperformance and to discuss the outlook for future performance.

**Resolved**
That AXA be invited to attend the next meeting of the Committee on 21 June 2017.

(e) 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. He highlighted that the three managers had been selected to a large extent because their different approaches were expected to complement each other, but the performance of all three was below benchmark since inception in December 2015.

**Noted**

**Treasury Management Strategy**

20 The Committee considered a report by the Fund Administrator setting out the Treasury Management Strategy (TMS) for 2017/18. The Finance Manager (Treasury and Pensions) explained that the TMS for 2017/18 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 Finance Manager (Treasury and Pensions) reported that the Fund was currently quite cash rich as a result of decisions taken in the summer 2016 to give sufficient liquidity to meet hedging liabilities and to fund drawdowns to infrastructure and private equity, but that the levels of cash held would be reviewed. Members asked that if high cash balances were maintained other options for investing cash to generate higher returns should be considered.

**Resolved**
That the Treasury Management Strategy for 2017/18 be agreed.

**Dates of Future Meetings**

21 **Resolved**
That meetings be held on the following dates:

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

**Questions**

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

Meeting Duration: 10.00 am - 1.00 pm