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## Pension Fund Committee

Minutes of the meeting held at County Hall, Colliton Park, Dorchester, Dorset, DT1 1XJ on Wednesday, 21 June 2017

### **Present:**

John Beesley (Chairman)

Andy Canning, Tony Ferrari, Spencer Flower, Peter Wharf, John Lofts and Johnny Stephens.

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

### Manager and Advisor Attendance

Alan Saunders (Independent Advisor), Steve Turner and Nick Self (Mercer).

(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, 13 September 2017.**)

### **Election of Chairman**

23 That John Beesley be elected Chairman for the year 2017/18.

### **Appointment of Vice-Chairman**

24 That Peter Wharf be appointed Vice-Chairman for the year 2017/18.

### **Apologies for Absence**

25 Apologies for absence were received from Colin Jamieson (Dorset County Council and May Haines (Borough of Poole).

### **Code of Conduct**

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

### **Terms of Reference**

27 The Terms of Reference for the Committee were received by members.

### **Statement by the Chairman**

28 The Chairman welcomed the new members to the Committee and asked for letters of thanks be written to all former members who had recently stood down from the Committee - Mike Byatt, Ronald Coatsworth, Trevor Jones and Mike Lovell.

The Chairman reported that the Interim Chief Treasury and Pensions Manager would be leaving Dorset County Council on 30 June 2017 to take up a post with Tameside Council and that this was, therefore, his final meeting. The Chairman thanked the Interim Chief Treasury and Pensions Manager for his advice and guidance, and his contribution to the Dorset County Pension Fund.

### **Minutes**

29 The minutes of the meeting held on 1 March 2017 were confirmed and signed.

## **Matters Arising**

### 30 Minute 14 Review of 2016 Fund Valuation Process

The Interim Chief Treasury and Pensions Manager reported that the Fund's actuary, Barnett Waddingham, would produce a plan for the 2019 valuation and this would be on the agenda for the meeting of the Committee on 13 September 2017.

### Minute 19 Manager Reports

The Interim Chief Treasury and Pensions Manager reported that officers and the Independent Adviser had met with Nigel Thomas, the AXA Framlington Fund's manager, on 18 May 2017, and that the Chairman had also met separately with Mr Thomas on 20 June 2017, where reassurances on the robustness of AXA's approach over the long term had been received. AXA had also offered to host the Committee's November 2017 meeting and training sessions in London, which would give all members the opportunity to hear from and ask questions to the fund manager directly.

## **Public Participation**

### 31 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.

## **The Brunel Pensions Partnership - project progress report**

32 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), as approved by the Committee at its meeting on 9 January 2017. He informed members that Dorset County Council, as administering authority, had approved the processes to establish the company and implement the new governance arrangements.

The Fund Administrator believed this was the largest ever change to the management arrangements of the Fund, and a huge amount of work had been completed to date and was still needed to implement the changes successfully. He informed members that there were monthly meetings of the Shadow Oversight Board (SOB), attended by representatives of all ten pension fund committees or equivalent and chaired by the Dorset Fund Chairman, 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) were held.

The Fund Administrator informed members that Denise La Gal had been appointed as chair of Brunel Pension Partnership Ltd. The Chairman told members that the three Non-Executive Directors (NEDs) had also been appointed – Steve Tyson (the shareholder representative NED), Mike Clark and Frederique Pierre-Pierre. The Fund Administrator confirmed that the recruitment process for the executive posts had begun, and that Dawn Turner, Environment Agency, had been appointed Interim Managing Director. He added that there had been significant discussions at SOB and FLAG on reward packages, with salaries capped and no bonuses for executives.

Members were informed members that officers were close to finalising the evaluation of the responses to the Invitation to Tender (ITT) to appoint an administrator and custodian for BPP Ltd and the underlying funds.

It was noted that from July 2017 the Shadow Oversight Board (SOB) would become the Oversight Board (OB). The Chairman was mindful not to overburden members with too much detail on project progress but asked that members continued to raise any queries or concerns with him, as the Fund's representative. He added that SOB had provided a high level of scrutiny and challenge on all matters, particularly future governance arrangements and cost control. He felt that the funds had worked well together, with decisions reached so far by consensus not majority, including some very difficult issues. He also highlighted the comprehensive legal and financial advice and support provided to the project by Osborne Clarke and PwC respectively.

A member asked about the management of transition costs. The Chairman replied that to date there had been set-up and development costs, but as yet no transition costs. Once officers had been recruited to BPP Ltd detailed plans for transition would be developed and implemented, with cost control a major factor. The Fund Administrator noted that transition costs would also be an important consideration in implementing any changes to the strategic allocation in advance of BPP.

The Vice-Chairman said that it would be useful to receive a regular, short and specific report, highlighting key risks and measuring performance against Key Performance Indicators (KPIs). The Chairman asked that officers request a forward plan be produced by BPP Ltd, and a member asked if the Committee could be informed of any significant developments between meetings. The Fund Administrator agreed with these requests and explained that the Services Agreement between each fund and BPP Ltd included the requirement for KPIs to be agreed and monitored, and it was expected these would be agreed later in the year.

### **Noted**

#### **Application for Admission Body Status in the Local Government Pension Scheme (LGPS) from the Jurassic Coast Trust (JCT)**

33 The Committee received a report by the Pension Fund Administrator that requested the approval of an application for admission body status from the Jurassic Coast Trust (JCT). The Interim Chief Treasury and Pensions Manager explained that JCT had been 'spun out' of Dorset County Council (DCC) in order to gain access to funding sources not available directly to local authorities. Four scheme members would transfer fully funded to the new organisation under TUPE regulations, with the deficit remaining with DCC, who would also act as guarantor for future liabilities.

The Vice-Chairman asked if there could be any unforeseen consequences for the protection to the Fund provided by this guarantee should DCC cease to exist under Local Government Reorganisation (LGR). The Fund Administrator replied that this was part of a wider issue for LGR, but the expectation would be that any guarantees from DCC or other employers ceasing to exist would novate to the new organisations, as would be the case with other existing contracts.

### **Resolved**

That Dorset County Council enters into an admission agreement with the Jurassic Coast Trust who will become an Admitted Body employer within the Local Government Pension Scheme (LGPS).

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

34 The Committee considered a report by the Pension Fund Administrator on the allocation of assets and overall performance of the Fund up to 31 March 2017.

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. He noted that although his report was written before the results of the UK general election were known not much had changed since in markets, despite greater political uncertainty.

The Independent Adviser reported that signs of a wider global recovery now looked more positive, with signs of sustainable growth across Europe, not just Germany, and recovery in Emerging Markets. However, Japan's economy was still 'stuttering', and China's transition to a consumer led economy remained a significant risk. UK growth was expected to be approximately 1.5% for the next two years.

Equity markets had a very good year, even allowing for currency movements, and volatility had dampened down. However, in the US there were now doubts about the deliverability of some of the President's plans, and the fiscal boost previously anticipated by markets looked less likely. He believed that the key risk was that the US Federal Reserve increased interest rates more quickly than markets expected, which could stop growth and lead to a sell-off of assets.

The Independent Adviser reported that property was the market most negatively affected by the result of the EU membership referendum but values had now largely recovered. He informed members that expectations were for gilt yields to rise, given their continuing very low levels, but as yet this had not happened.

It was felt that there was still a high level of uncertainty about the outcome of the Brexit process. A member asked the Independent Adviser about the reaction of markets to these political uncertainties. The Independent Adviser replied that, whilst the City's preference would be for the UK to remain in the single European market, as that now seemed unlikely, the second best outcome would be continued access to the market, with a long transition period before any new arrangements were implemented. He added that generally tariffs on manufactured goods were not now particularly high but the concern was that there could be restrictions on access for UK services to the European market. He also highlighted that trade agreements could take considerable time to negotiate.

A member raised his concerns that he felt current equity prices were not supported by fundamentals, and he highlighted that it had been a long time since the last significant market correction. The Independent Adviser replied that, although most of the gains in the FTSE 100 over the last year had been driven by sterling's depreciation, the member's concerns could be warranted to some extent in UK and US markets, but less so in other markets, such as Europe and Emerging Markets, where valuations were supported by signs of sustainable economic growth.

The Fund Administrator highlighted the very strong absolute performance of the Fund's assets over the financial year to 31 March 2017, 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. He also informed members that the draft Fund accounts had been approved for publication on 15 May 2017, earlier than ever before, and that they were now subject to review by KPMG, the external auditors.

### **Resolved**

- (i) That the activity and overall performance of the Fund be noted.
- (ii) That no changes to asset allocation be made at this time.
- (iii) That the publication of the draft Pension Fund accounts be noted.
- (iv) That the Funding Strategy Statement (FSS) March 2017 be approved as a basis for consultation with the Fund's employers.

## Other Manager reports

### 35 (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 passive 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, and for the 12 months, 3 years and 5 years ending 31 March 2017.

The performance of AXA was also highlighted, as 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 March 2017. Further to the discussions earlier in the meeting under matters arising, the Finance Manager (Treasury and Pensions) added that AXA's bias towards mid-cap stocks should complement the internally managed portfolio's inherent bias towards the largest companies in the FTSE 100.

**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. He highlighted that all three managers had produced very high absolute returns but Allianz and Investec were still below their benchmark for the 12 months to 31 March 2017. The Independent Adviser noted that the more traditional approach of Wellington appeared to have performed better to date than the factor based approaches of Allianz and Investec.

**Noted**

### (c) Royal London Asset Management (rlam)

The Committee considered a report from Royal London Asset Management (rlam) on the Corporate Bond portfolio. The Finance Manager (Treasury and Pensions) highlighted the good absolute and relative performance over the quarter, one, three and five year periods, but said that relative performance since inception was still marginally negative, due to the banking crisis which occurred soon after inception.

**Noted**

### (d) 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 performance was slightly below benchmark for the quarter but above benchmark for one, three and five years to 31 March 2017. He highlighted the low vacancy rate of 2.5% which was considered a key driver of performance. He informed members that the development of Cambridge Science Park had 'broken ground' and that the purchase of Waterloo Plaza was imminent.

The Vice-Chairman raised a concern that the average lease length of the Fund's holdings were higher than the benchmark. The Interim Chief Treasury and Pensions Manager replied that CBRE actively looked to renegotiate leases as they approached maturity, but he highlighted that a key issue to be addressed was the high number of leases that expired in 2020.

**Noted**

### (e) 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 (after additional investment) had increased by approximately 50% over the financial year but noted that liabilities would also have increased over that period.

### **Noted**

#### **Dates of Future Meetings**

36

#### **Resolved**

That meetings be held on the following dates:

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

#### **Questions**

37

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

### **Exempt Business**

#### **Exclusion of the Public**

#### **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 38 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.

#### **Strategic Asset Allocation Review (Paragraph 3)**

38

Steve Turner and Nick Self, from investment consultant Mercer, presented their review of the Fund's strategic allocation to asset classes following the results of the 2016 actuarial valuation. The Independent Adviser and the Fund Administrator also gave their views on the proposed changes to the existing asset allocation and members asked a number of questions. The Independent Adviser and Fund Administrator agreed to produce a modified proposal based on the discussions which would be modelled by Mercer to assess the impact on risk and expected return. The Fund Administrator added that the implementation of any changes would need to take into consideration the Brunel Pension Partnership (BPP) and transition costs.

#### **Resolved**

That an additional meeting of the Committee be held to reach a final agreement on any changes to the strategic allocation.

Meeting Duration: 10.00 am - 1.10 pm