



Pension Fund Committee

Minutes of the meeting held at County Hall, Colliton Park, Dorchester, Dorset, DT1 1XJ on Wednesday, 13 September 2017

Present:

John Beesley (Chairman)
Andy Canning, Tony Ferrari, Spencer Flower, May Haines, Colin Jamieson, John Lofts, Johnny Stephens and Peter Wharf

Officer Attendance: Richard Bates (Chief Financial Officer), Karen Gibson (Interim Pensions Administration Manager) and David Wilkes (Finance Manager - Treasury and Investments).

Manager and Advisor Attendance

Alan Saunders, Independent Advisor

(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, 23 November 2017.**)

Apologies for Absence

39 No apologies for absence were received.

Code of Conduct

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

Minutes

41 The minutes of the meeting held on 21 June 2017 were confirmed and signed.

Public Participation

42 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 Administration

43 The Committee considered a report from the Fund Administrator on the administration of the Fund.

Officers highlighted the overseas existence checks that would be introduced shortly. Many other administering authorities had done this and most had suspended some payments as a result. The Vice-Chairman asked if it was intended to take action against anyone suspected to be claiming benefits fraudulently. Officers confirmed that appropriate action would be taken, and added that there had been instances in the past where the police had been involved.

A member asked if the checking process would apply only to benefits paid to Western Union bank accounts. It was clarified that the checking process would apply to all known overseas recipients of benefits. The checks would not identify recipients who emigrated without informing the Fund and whose benefits continued to be paid to a UK bank account, but in those cases returned post would eventually lead to suspension of benefits.

Officers gave an update on the implementation plans for the online self-serve portal. A member asked if a cost benefit analysis had been undertaken. Officers responded that the self-serve option should generate efficiencies and provide a better service to scheme members, and an update would be submitted to the Committee in a year's time.

Officers informed the Committee that since the report was written a further consultation on exit payment recovery and caps on the value of exit payments had been announced. Confirmation was given that all Annual Benefit Illustrations had been issued ahead of the regulatory deadline of 31 August 2017.

The Independent Adviser asked about the level of requests to transfer out of the scheme under new pension freedoms. Officers replied that there had been very few transfers out, and these had tended to be for relatively small amounts. The Independent Adviser suggested that this should be kept under review as there had been a growing trend for transfers out from corporate pension schemes.

Resolved

That officers submit an update report on the implementation of the online self-serve portal project to the Committee at its meeting on 12 September 2018.

The Brunel Pensions Partnership - Project Progress Report

44 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.

The Chairman informed members that all senior officers and non-executives had been appointed, and BPP Ltd was working well, with a high level of confidence that the project was on track to 'go live' with effect April 2018. The Fund Administrator added that the current major tasks were the appointment of a common custodian to BPP Ltd and the underlying funds, the application for Financial Conduct Authority (FCA) authorisation, and the development of BPP portfolios for the underlying funds to invest in from April 2018 onwards.

The Chairman asked that members continued to raise any queries or concerns with him, in his capacity as the Fund's representative on the Oversight Board. He added that all ten funds continued to be very engaged in the project, and that everyone involved was intent on BPP being successful.

Noted

Fund Administrator's Report

45 The Committee considered a report by the Pension Fund Administrator on the allocation of assets and the overall performance of the Fund up to 30 June 2017.

The Independent Adviser presented his report at Appendix 1 with a commentary on the investment outlook, and how it was likely to affect each asset class. He summarised that generally markets were quite calm - global performance was improving, the European Central Bank (ECB) were considering tapering Quantitative Easing (QE) in the EU, emerging markets were performing quite strongly, and the US economy was strong but not so strong as to need significant monetary tightening. UK

growth had been revised down in the quarter due to the squeeze on consumer income from rising inflation and the failure to generate the higher level of exports hoped for as a result of sterling's depreciation.

The Independent Adviser felt that improved earnings, takeover activity, stock buy-backs and dividend levels were all supportive of current levels of equity prices, but that bond markets looked like they were getting close to a correction. Property had performed quite well, supported by robust returns from the industrial sector, although CBRE, the Fund's property manager, had sounded a cautionary note for expected returns from commercial offices in London.

A member asked about the impact of employment trends in the UK. The Independent Adviser replied that the high levels of employment were a great accomplishment, although high levels of part time and 'underemployed' workers had resulted in subdued wage growth.

The Fund Administrator highlighted the levels of cash balances and confirmed that officers were looking at products that offered an improved return on cash balances for no significant loss of liquidity. He also confirmed that CBRE had completed the purchase of Park Plaza, Waterloo in July, with the Fund's share approximately £15M.

The Fund Administrator summarised the implications for the Fund of the introduction of the Markers in Financial Instruments Directive (MiFID) II in January 2018. He explained the reasons why the administering authority needed to 'opt up' from retail to elected professional status with all external investment managers and other relevant providers, and that templates developed by Local Government Association (LGA) would be used. As MiFID II would also affect treasury management activities, the Chairman suggested 'best practice' should be shared with the Dorset Finance Officers' Group (DFOG).

Resolved

1. That the activity and overall performance of the Fund be noted.
2. That officers apply for the administering authority to opt up from retail client to elected professional client status with all relevant financial institutions.

Report to those charged with Governance (ISA 260) 2016-17

46 The Committee considered a report on the Fund's financial statements for 2016-17 by KPMG, the administering authority's external auditor. The Fund Administrator reported that no material issues had been identified, and an unqualified audit opinion on the Fund's financial statements was issued on 24 July 2017. The auditor also concluded that the financial and non-financial information in the Fund's annual report was "not inconsistent" with the financial information contained in the Fund's audited financial statements.

The Vice-Chairman asked how the auditor arrived at the materiality level of £30M. The Fund Administrator replied that this was derived from KPMG's standard calculation which was based on a percentage of total net assets, flexed for the level of perceived risk.

Noted

Pension Fund Annual Report

47 The Committee received the Pension Fund Annual Report for 2016-17. Officers confirmed that the report would be posted on the Fund's website.

Noted

Voting Activity

- 48 The Committee received the annual report on the Fund's voting activity in relation to the equities directly owned by the Fund and held through pooled investments. Officers highlighted that the Fund only voted against or abstained on a very small percentage of resolutions proposed by the management of companies it invested in, examples of which were given. A member asked for details of all such cases.

Resolved

That officers produce a schedule of all voting activity against or abstaining from resolutions proposed by the management of companies the Fund is invested in for the next meeting of the Committee on 23 November 2017.

Other Manager Reports

49 **(a) UK Equity Report**

The Committee considered a report by the Finance Manager (Treasury and Investments) which summarised the performance of the internally managed UK equities passive portfolio, the AXA Framlington Fund and the Schroders Small Cap Fund. He reported that the return from the internally managed passive portfolio was inside the agreed tolerance of +/- 0.5%. He added that both external managers had performed well in the quarter, and that, over the longer term, AXA had recovered much of the lost ground from the previous year.

The Vice-Chairman said that because of the volume and level of detail in the manager reports it was difficult to spot the key issues or concerns that might warrant further consideration by the Committee. The Fund Administrator agreed and proposed that in future key issues across all managers would be highlighted in the Fund Administrator's report, with the detailed reports from managers included as appendices.

Resolved

That all key issues relating to all managers would be highlighted in the Fund Administrator's report, with the reports from managers included as appendices.

(b) Global Equities Report

The Committee considered a report by the Finance Manager (Treasury and Investments) which summarised the performance of the three Global Equities' managers Allianz, Investec and Wellington. He highlighted that all three managers had a relatively flat quarter, very high absolute returns over the longer term, but Allianz and Investec were still marginally below their benchmark since inception in mid-December 2015.

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 Investments) highlighted the outperformance of their benchmark over the quarter, one, three and five year periods. Relative performance since inception was still marginally negative, due to the banking crisis which occurred soon after inception, but was now very close to becoming positive.

Noted

(d) CBRE Global Investors

The Committee considered a report from CBRE Global Investors, the Fund's Property Manager. The Fund Administrator told members that the development of Cambridge Science Park was progressing well and the purchase of Park Plaza, Waterloo, had completed in July. He said that CBRE's legal advisers had dealt with the occupation

of the Fund's property in Great Suffolk Street by squatters very effectively, efficiently and promptly.

The Fund Administrator highlighted a key issue to be addressed by CBRE was the high number of leases that would expire in 2020. Negotiations with most tenants had begun, but further detail from CBRE would be sought by officers to provide reassurance to members that this risk would be addressed.

A member asked if the Fund had considered investing in the Dorset Innovation Park. The Fund Administrator replied that it had been the long standing policy of the Fund not to invest in Dorset. The Independent Adviser added that the Fund seldom invested in development projects, with Cambridge Science Park a notable exception.

Resolved

That further details of the renegotiation of all leases expiring in 2020 would be sought from CBRE.

(e) Insight Investment

The Committee considered a report from Insight Investment, who had the mandate for the liability matching strategy. The Fund Administrator highlighted that the negative absolute performance for the quarter meant that the Fund's liabilities would have decreased over the same period. The Independent Adviser added that the outperformance against benchmark gave comfort to the decision to remain with an active mandate.

Noted

Dates of Future Meetings

50 Members asked if future Committee meetings could revert to alternating between County Hall, Dorchester and London, as this gave members the opportunity for more direct interaction with the Fund's external investment managers. The Fund Administrator agreed to this request.

Resolved

That meetings be held on the following dates:

22/23 November 2017 7NX	AXA, 7 Newgate Street, London, EC1A
28 February 2018	County Hall, Dorchester
20/21 June 2018	London (to be confirmed)
12 September 2018	County Hall, Dorchester
21/22 November 2018	London (to be confirmed)

Questions

51 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 52 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)

52 The Committee considered a report by the Pension Fund Administrator on the review of the strategic asset allocation of the Fund following the results of the latest triennial actuarial valuation. The Fund Administrator explained that the proposed changes to asset allocation in the report were based on the original recommendations from Mercer, investment consultants, as modified by officers and the Independent Adviser following discussions at the last meeting of the Committee on 21 June 2017.

Resolved

1. That the proposed changes to the long-term strategic allocation be agreed.
2. That officers be authorised to implement the changes to the long-term strategic allocation.
3. That CQS be appointed as the preferred Multi Asset Credit (MAC) provider.
4. That officers update the Investment Strategy Statement (ISS) as necessary.

Meeting Duration: 10.00 am - 12.25 pm