Pension Fund Committee

Minutes of the meeting held at AXA Offices, 7 Newgate Street, London, EC1A 7NX on Thursday, 23 November 2017

Present:
John Beesley (Chairman)
Andy Canning, Tony Ferrari, May Haines, John Lofts and Peter Wharf

Officer Attendance: Richard Bates (Chief Financial Officer) and David Wilkes (Finance Manager - Treasury and Investments).

Manager and Advisor Attendance
Alan Saunders (Independent Adviser), Peter Scales (Independent Governance Adviser), Alex Harley and Marino Valensise (Baring Asset Management), Ian Wilson and Michael Mess (CBRE 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 **Wednesday, 28 February 2018**.)

Apologies for Absence

53 Apologies for absence were received from Spencer Flower and Colin Jamieson (Dorset County Council).

Code of Conduct

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

Statement by Chairman

55 The Chairman reported that Johnny Stephens, the scheme member representative, had resigned from the Committee for personal reasons. A letter of thanks would be written to Mr Stephens acknowledging his valuable contribution to the Committee over many years.

Minutes

56 The minutes of the meeting held on 13 September 2017 were confirmed and signed.

Public Participation

57 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).

Petitions
There were no petitions received at the meeting in accordance with the County

Council's Petition Scheme.

Diversified Growth Fund (DGF)

58 The Committee received a report from Alex Harley and Marino Valensise, Baring Asset Management, the Fund's DGF manager, on the performance of the Fund's investment in the Baring Dynamic Asset Allocation Fund. Mr Harley reminded the Committee that the objective of the fund was to deliver equity like returns but with significantly lower volatility, with a target return after fees of London Interbank Offered Rate (LIBOR) plus 4%. Mr Valensise explained their investment process was based on a combination of strategic long term research and shorter term dynamic tactical asset allocation decisions.

Mr Valensise highlighted the strong performance of the fund over the three years to 30 September 2017, compared to target and against the performance of their competitors. One member noted that the fund had not outperformed equities over this period. Mr Valensise agreed but explained that LIBOR plus 4% was consistent with long term expected returns from equities and that the fund should outperform equities in a downturn. It was also noted that in the early years of the fund, Barings had divested away from equities to government bonds and latterly to corporate bonds. Mr Valensise confirmed this was the case and added that there was currently very little attraction in buying bonds.

Mr Valensise informed the Committee that the asset classes expected to perform well included European and Japanese equities (in particular Japanese banks), emerging market debt and high yield bonds, with US equities not favoured. The Independent Adviser observed that emerging market debt and high yield bonds were both volatile asset classes. Mr Valensise agreed but they were not as volatile as equities.

Noted

Property Portfolio

59 The Committee received a report from Ian Wilson and Michael Mess, CBRE Global Investors, the Fund's property manager. Mr Mess reported that UK commercial property had performed much better than expected following the result of the EU referendum, after which it was expected to see a slowdown. Valuations looked high when viewed against historic measures but income generation was still attractive, with tenants feeling positive (particularly outside London) despite political uncertainty. Limited supply of property coupled with high tenant demand indicated good rental growth, particularly in the light industrial and logistics sectors. Total returns for 2017 of close to 10% were expected, compared to a forecast of 5% at the beginning of the year.

Mr Wilson reported a slight underperformance of the portfolio against benchmark for the 12 months to 30 September 2017, but he expected this to recover over the remainder of 2017. He expanded on the lease expiry 'spikes' in 2018 and 2020, and the steps taken to mitigate the risk of voids. Members were informed that the development of Cambridge Science Park had progressed well and was due to complete in January 2019, with the potential for further development opportunities on adjoining sites thereafter.

The Committee was informed of a request to write off six months' rent arrears of 134k on Charlotte House, Newcastle as a result of the tenant going into liquidation, offset by furniture and fittings with an estimated value of £75k. There had been some concerns with the tenant at the time of purchase but the yield on the property had been very attractive. The increase in student accommodation locally had not been foreseen, and CBRE had installed an experienced management company to build up occupancy rates to make the property more marketable before looking to sell. CBRE had looked at alternative uses for the property but confirmed they would not be renting to private individuals.

The Independent Adviser asked if there were concerns with the student accommodation sector generally. Mr Wilson replied that Brexit uncertainties had impacted on demand from overseas students, students had become more discerning in their choice of accommodation and the sector had seen a significant increase in supply.

The Independent Adviser enquired as to how long CBRE thought it would take to commit the new allocation to High Lease Value (HLV) properties. Mr Wilson thought that given the high demand for good properties with strong HLV characteristics it could take 12 to 18 months to achieve the initial additional 2% allocation, with the long term target of a 50/50 split between core and HLV properties expected to take a number of years.

Noted

Independent Adviser's Report

60 The Committee considered a report by the Independent Adviser that gave his views on the economic background to the Fund's investments, and the outlook for different asset classes. He summarised that generally markets were calm despite the continued global political uncertainties.

UK growth forecasts from the Office for Budget Responsibility (OBR) were down from 2.0% p.a. to 1.5% p.a. due to a slowdown in productivity, but US figures were stronger. The increase in UK bank rate from 0.25% to 0.50% had very little impact, as it had just reversed the reduction shortly after the result of the EU membership referendum. The budget had created some fiscal stimulus for the next year or so, but thereafter it was much tighter.

Markets were concerned about the tapering off of Quantitative Easing (QE). Effectively QE had created a bubble in bond markets, but the Fund's Multi Asset Credit manager had a greater focus on loans, which were floating rate, rather than bonds which meant the Fund was less exposed than it had been.

Equity markets were still strong but the Independent Adviser felt that they must be in the "end game". The Independent Adviser would like to see the Fund with more emphasis on worldwide equities compared to UK equities, as reflected in the changes to the strategic asset allocation agreed at the last meeting of the Committee. He estimated that the Fund had exposure of about 20% of assets to foreign currency, which supported the strategy of hedging 50% of global equities in the major currencies (US Dollar, Euro and Japanese Yen).

Noted

Fund Administrator's Report

61 The Committee considered a report by the Pension Fund Administrator on the asset allocation, valuation and overall performance of the Fund's assets up to 30 September 2017. Officers confirmed the format of the report had been changed to include performance on all managers as resolved at the last meeting of the Committee in September 2017, and any feedback was welcomed.

Officers highlighted that absolute and relative returns from the Fund's two private equity managers and one of the Fund's infrastructure managers had been adversely affected by the appreciation of sterling over the quarter. Members asked that officers review the reported benchmarks and targets of all external investment managers to ensure their appropriateness for assessing manager performance. Members also identified a need for further understanding of the performance of the underlying investments made through the Fund's private equity managers.

Officers reported that the legal agreement with CQS, the Fund's recently appointed Multi Asset Credit (MAC) manager was close to finalisation, with investment on target for 1 December 2017. Members were also informed that the majority of the Fund's external investment managers had now 'opted up' the administering authority from retail to elected professional status under the Markets in Financial Instruments Directive (MiFID) II, ahead of the 3 January 2018 deadline.

Resolved
1. That the benchmarks and targets of all external investment managers be reviewed and amended if necessary.
2. That the reporting of underlying investments made through the Fund's external private equity managers be reviewed and amended if necessary.

The Brunel Pension Partnership - Project Progress Report

62 The Committee considered a report by the Fund Administrator on the progress to date in implementation of the Full Business Case (FBC) for the Brunel Pension Partnership (BPP), as approved by the Committee at its meeting on 9 January 2017.

Members were informed that work to establish Brunel Ltd was very well advanced, as was the appointment of a common administrator/custodian to Brunel Ltd and the underlying funds, and that the application for Financial Conduct Authority (FCA) authorisation had been submitted.

Work on the development of Brunel portfolios for the underlying funds to invest in from April 2018 onwards was underway with ongoing dialogue between Brunel Ltd and investment officers from the underlying funds, including Dorset. It was felt that this phase of portfolio development and implementation would be the key to the success of BPP in delivering the benefits in the FBC.

It was highlighted that the creation of a Multi Asset Credit (MAC) portfolio was not scheduled in the indicative timetable until the first quarter of 2019, which supported the decision of the Committee for the Fund to appoint its own manager. The Independent Adviser suggested that as the Diversified Growth Funds (DGF) portfolio was not scheduled until the last quarter of 2018, officers should look at the possibility of appointing a complementary manager to Barings to meet the increased strategic asset allocation to DGF rather than waiting until the Brunel portfolio was available.

Officers would circulate the slides from the recent shareholder engagement events held across the Brunel region. As many Committee and Local Pension Board members were unable to attend these events, officers offered to set up a session to go through the key points, with support from representatives from Brunel Ltd. It was also agreed that Dawn Turner, Chief Executive Officer, Brunel Ltd, be invited to the Committee's training day in London on 20 June 2018.

Resolved
1. That the Vice-Chairman of the Committee be confirmed as the Fund's representative on the Brunel Oversight Board for the time being, and for the-Chairman to resume his duties as the Fund's representative as soon as is practicable.
2. That options for meeting the increased allocation to Diversified Growth Funds (DGF) be considered.

3. That a training session be set up to go through key issues covered at the November 2017 shareholder engagement events.
4. That the Chief Executive Officer, Brunel Ltd, be invited to the Committee's training day in London on 20 June 2018 to give a progress update and to discuss BPP's approach to responsible investment.

Pensions Administration

63 The Committee considered a report by the Pension Fund Administrator on the administration of the Fund. Members of the Committee gave their condolences to the family, friends and colleagues of Hannah Richardson, a much valued member of the administration team, who died in a car accident in October 2017.

Officers highlighted the results of the data quality report from Aquilla Heywood and the resulting data improvement plan. The risks from the HM Treasury requirement for pension schemes to reconcile Guaranteed Minimum Pension (GMP) were also highlighted.

Noted

Governance Compliance Update

64 The Committee received the annual report by the Independent Governance Adviser. He was satisfied that since his last report in September 2016 governance standards had been maintained and improved upon. He had also reviewed, and reported to, the Local Pension Board which in his view was operating effectively.

The Independent Governance Adviser observed that the new investment pooling arrangements appeared to have proceeded well but continued to represent challenges in establishing a workable governance structure for the future that integrated the responsibilities of the Committee, the Local Pension Board and Brunel Ltd.

Resolved

1. That the operational monitoring and compliance arrangements, including policy documentation, be reviewed with regard to the CIPFA guidance on governance principles for the oversight of pools in order to establish how the new governance arrangements would operate effectively in the context of both the Committee's and the Local Pension Board's responsibilities.
2. That the Committee continues to monitor progress on the Markets in Financial Instruments Directive (MiFID) II opt-up process and the implementation of the General Data Protection Regulation.

Dates of Future Meetings

65 **Resolved**

That the meetings be held on the following dates:

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

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

Meeting Duration: 10.15 am - 12.45 pm