Pension Fund Committee

Minutes of the meeting held at County Hall, Colliton Park, Dorchester, Dorset, DT1 1XJ on Monday, 17 September 2018

Present:
John Beesley (Chairman)
May Haines, Mark Roberts, John Lofts and Andrew Turner

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

Manager and Advisor Attendance
Alan Saunders, Independent Advisor
Matthew Trebilcock, Brunel Pensions Partnership Ltd

(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, 22 November 2018**.)

Apologies for Absence

30 Apologies for absence were received from Spencer Flower, Colin Jamieson and Peter Wharf (all Dorset County Council).

Code of Conduct

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

Minutes of Previous Meeting

32 The minutes of the meeting held on 21 June 2018 were confirmed and signed.

Public Participation

33 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.

Presentation from Brunel Pension Partnership Ltd

34 The Committee received a presentation from Matthew Trebilcock, Brunel Pensions Partnership Ltd, the Fund's Local Government Pension Scheme (LGPS) investment pooling manager. The presentation covered progress with asset transitions to Brunel portfolios and other developments since the last meeting of the Committee held on 21 June 2018.

The transition of approximately £6 billion of client fund assets into Brunel's passive portfolios was successfully completed in July 2018. Annual fee savings for the client funds in total were estimated to be approximately £1.1 million better than those assumed in the Final Business Case (FBC) for the pooling project, with transition costs also significantly lower than estimated in the FBC.

Brunel's Authorised Contractual Scheme (ACS) prospectus was submitted to the Financial Conduct Authority (FCA) on 10 September 2018. The first portfolios to be launched through the Brunel ACS were planned to be (active) UK Equities and Global Low Volatility Equities, with transition of assets expected in November 2018.

The manager selection process for the two new portfolios was near completion, with the announcement of the results expected shortly. Estimated fee savings from the UK Equity transition were expected to be significantly better than those assumed in the FBC. Brunel were asking for confirmation of commitments to the two new portfolios by 30 September 2018.

In response to queries from the Independent Adviser regarding the results of this exercise, the investment pooling manager expanded on the selection process that had been followed including the additional due diligence that had been undertaken. Further details of the strategies and teams of the successful bidders were requested.

In Private Markets, significant Secured Income commitments were close to completion with good progress also in identifying Private Equity opportunities. Good progress had been made in the establishment of Brunel as the 'multi-manager' for the clients' investments in pooled property funds. This excluded Dorset whose property investments (direct and pooled) would continue to be managed by CBRE.

The Independent Adviser was happy with progress in Private Markets. He believed that Dorset had demonstrated commitment to the Brunel approach by making allocations to the Private Equity and Secured Income portfolios.

The transition plan for all remaining portfolios was under review, based upon experience gained to date, and client expectations and priorities. The Independent Adviser asked if the transition plan for the Diversified Growth Fund (DGF) portfolio could be accelerated. The investment pooling manager explained that as part of the review all client funds had been asked to highlight their priorities. A number of client funds, including Dorset, had identified DGF as a high priority.

The Fund Administrator noted the good progress in implementation to date but asked for an update on additional costs. The investment pooling manager expected the outcome of the review to recommend extending the transition period from two to three years, but also with a requirement for some additional resource. A draft plan with indicative costs and benefits for different options would be presented to the Brunel Oversight Board on 27 September 2018 for feedback and direction.

Resolved
That further details of the strategies and teams of the successful bidders for UK Equities be provided by Brunel.

Independent Adviser's Report

35 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 highlighted the key risks for markets, with the conclusion that it was time to take a more cautious approach to investment decisions.

Inflation in the US was predicted to rise with the expectation that the Federal Reserve would 'put the brakes on' by increasing interest rates, leading in turn to the appreciation of the US Dollar. This would have adverse consequences for Emerging Markets, due to the large dollar denominated debts of some countries and companies.

Increased global trading and political tensions were another key source of risk. The potential impact on oil prices of deteriorating relations between the US and Iran was highlighted. A member asked if the UK's North Sea oil reserves gave some protection from such a scenario. The Independent Adviser replied that although the UK was still reasonably self-sufficient in oil, an increase in oil prices was still expected to have an overall adverse impact on the economy.

In credit markets, there were signs of deterioration in the quality of loans, particularly the rise of 'covenant-lite' loans that had weaker protections for lenders, and an increased incidence of corporate failures.

UK equity markets were weaker than in other developed markets largely due to continued uncertainty regarding the final outcomes of the Brexit process. The worst case for markets would be 'no deal' or a perceived 'bad deal' as this would very likely lead to significant depreciation of sterling, similar to that witnessed after the results of the referendum.

Should any of these risks be realised, it could also be difficult for central banks to respond with more Quantitative Easing (QE) due to pressures on their balance sheets. In conclusion, the Fund should continue to de-risk by selling equities back towards target allocation, with UK equities the priority.

Noted

Fund Administrator's Report

36 The Committee considered a report by the Pension Fund Administrator on the latest indicative funding position, and the asset allocation, valuation and performance of the Fund's assets up to 30 June 2018.

The Fund Administrator highlighted the inclusion in the report of an interim update on the funding position between full triennial valuations from Barnett Waddingham, the Fund's Actuary. An update on the funding position would be included in all future reports.

The funding update showed an improvement in the funding position from 83.2% at the last triennial valuation at 31 March 2016 to an estimated 90.1% as at 30 June 2018 due to higher than expected increases in asset values in the intervening period.

The update also showed that the average required employer contribution rate was estimated to have increased from 21.4% of payroll to 22.2% due to higher assumed long-term inflation and lower assumed future investment returns. The Independent Adviser highlighted the impact of the choice of actuarial discount rate on this calculation. The Chairman also noted the impact of diversification away from equities towards other asset classes.

The value of the Fund's assets at 30 June 2018 was £2.95 billion, with a total return on investments of 3.5% for the quarter, against the combined benchmark return of 3.8%. Returns in the quarter were driven by large gains in equities in developed markets, reversing the losses in the previous quarter.

Performance in each asset class was discussed. The Independent Adviser highlighted the outperformance of the Multi Asset Credit (MAC) benchmark against the bonds benchmark which supported the decision for the change in target asset allocation. The Fund's MAC manager, CQS, had accepted an invitation to present at the next meeting of the Committee on 22 November 2018.

The Fund was overweight in equities with 52% of assets by value invested in listed equities, including emerging markets, compared to a target of 45%. Officers would continue to sell equities back towards target, but the challenge was to invest the proceeds in the more illiquid asset classes, such as private equity, infrastructure and property, where the Fund was below target.

Re-negotiations with Insight Investments, the Fund's Liability Driven Investment (LDI) manager, had resulted in a reduction in base fees, an improved performance fee mechanism and an updated benchmark. Significant changes to reporting had also been made but some further improvements were sought.

Resolved

1. That the activity and overall performance of the Fund be noted.
2. That the progress in implementing the new strategic asset allocation be noted.
3. That the publication of the final audited Pension Fund accounts for 2017-18 be noted.
4. That the Risk Register be agreed.
5. That officers be thanked for their efforts in relation to the continued good performance and administration of the Fund.

The Brunel Pension Partnership - Project Progress Report

37 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, as approved by the Committee at its meeting on 9 January 2017.

Much of the report's content had been covered by the presentation from Brunel earlier in the meeting, but officers expanded on some points specific to Dorset that weren't previously covered.

The Fund's internally managed UK equities' portfolio successfully transitioned to the Brunel UK Passive portfolio on 11 July 2018 and the Fund's global equities under the management of Allianz successfully transitioned to the Brunel Smart Beta portfolio on 18 July 2018. In total, approximately £700 million of investments transferred to the Brunel's management, representing nearly a quarter of the Fund's total assets.

The Independent Adviser asked if the assets transferred to Brunel would be hedged against currency movements. Officers confirmed that the Fund's holdings in the Brunel Smart Beta portfolio were split equally between 'hedged' and 'unhedged' unit classes. This closely replicated the effect of the previous 50% hedge on assets denominated in US Dollars, Euros and Japanese Yen under the management of Allianz.

The Independent Adviser commented that Brunel's progress was advanced compared to that of the other LGPS investment pools.

Noted

Pension Fund Administration

38 The Committee considered a report by the Pension Fund Administrator on the administration of the Fund.

Regulation 13 of the Local Government Pension Scheme (Amendment) Regulations 2018 introduced the requirement for the payment of an exit credit to an employer where a surplus was identified in a cessation valuation. Previously the regulations did not allow such a payment and any such surplus funds would remain in the Fund.

The bulk of the Annual Benefit Illustrations (ABIs) for members were issued before the statutory deadline of 31 August 2018 but issues with the data provided by one large employer resulted in 1,799 ABIs not being issued. This matter was being progressed with the employer.

The new Member Self-Serve Facility had gone 'live' with nearly a quarter of active and deferred scheme members now registered. The main intended benefit of the facility was increased engagement of members. It was anticipated that in 2019-20 members would have the choice to 'opt out' of the receipt of a paper copy of their ABI but there were no plans currently to stop paper copies entirely.

The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) have launched a campaign to raise awareness of pension scams. To date this had not been a big issue for the Fund, but it was something that would continue to be closely monitored by officers.

Noted

Report to those charged with Governance (ISA 260) 2017-18

39 The Committee considered a report on the Fund's financial statements for 2017-18 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 23 July 2018.

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.

Noted

Pension Fund Annual Report 2017-18

40 The Committee received the Pension Fund Annual Report for 2017-18. Officers confirmed that the report would be posted on the Fund's website.

Noted

Voting Activity 2017-18

41 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 single common voting policy would shortly be introduced for investments held in Brunel portfolios by the ten client funds including Dorset. This was unlikely to be materially different to the existing Dorset policy.

Noted

Dates of Future Meetings

42 **Resolved**

That meetings be held on the following dates:

21/22 November 2018	London (to be confirmed)
27 February 2019	County Hall, Dorchester

Questions

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

Meeting Duration: 10.00 am - 12.30 pm