DORSET COUNCIL - PENSION FUND COMMITTEE

MINUTES OF MEETING HELD ON THURSDAY 20 JUNE 2019

Present: Cllrs Ray Bryan, Andy Canning, Howard Legg, Mark Roberts, Peter Wharf and Andrew Turner

Also present: Cllrs John Beesley, David Brown, Felicity Rice (BCP), Alan Saunders, Independent Adviser and Matthew Trebilcock, Brunel Pension Partnership

Officers present (for all or part of the meeting):
Aidan Dunn (Executive Director - Corporate Development S151), Karen Gibson (Pensions Administration Manager) and David Wilkes (Senior Finance Manager - Treasury and Investments)

1. **Introduction by the Fund Administrator**

The Fund Administrator welcomed everyone to the first meeting of the new Pension Fund Committee established after the changes to local government in Dorset. As this was the first meeting of a new committee, there were no minutes to approve from a previous meeting. BCP nominees could participate fully in discussions but they could not vote on any resolutions as they had not yet been confirmed as members of the Committee.

2. **Election of Chairman for the meeting**

Peter Wharf was elected as Chairman for the meeting.

3. **Statement by the Chairman**

The Chairman explained that at the next meeting of the Committee in September, a chair and vice-chair would be elected for the remainder of the 2019-20 financial year.

He apologised for any inconvenience caused by the late decision to cancel the proposed training sessions in London on 19 June 2019. This was due to concerns about disruption to rail services as a result of industrial action. It was agreed that training would be provided on the same day as the Committee meeting in September at County Hall, Dorchester.

The Chairman informed members that Richard Bates, the former fund administrator, had left Dorset Council. He had served the Committee with great skill for many years, and it was agreed that a letter of thanks would be written to him.

The Chairman also told members of the death of Johnny Stephens, who had been the Scheme Member Representative on the Committee for many years before stepping down in November 2017. It was agreed that a letter of condolence be sent to his family.

At the Chairman's request, all members and nominees introduced themselves, and gave their reasons for wanting to sit on the Committee.

Resolved
1. That training sessions be provided at the next meeting of the Committee on 12 September 2019.
2. That a letter of thanks be written to Richard Bates.
3. That a letter of condolence be written to the family of Johnny Stephens.

4. **Declarations of Interest**

Cllr David Brown declared that he was a deferred member of the Local Government Pension Scheme (LGPS). Officers did not believe this was a disclosable pecuniary interest under the Code of Conduct, but this would be checked and confirmed. There were no other declarations of interests made at the meeting.

Resolved
That officers check and confirm that membership of the LGPS was not a disclosable pecuniary interest under the Code of Conduct.

5. **Terms of Reference**

The Terms of Reference state that the Committee was primarily responsible for exercising all functions of Dorset Council as the administering authority of the Dorset County Pension Fund. It was agreed that officers would provide further explanation to define what those responsibilities were.

Resolved
That officers review and expand on the Terms of Reference for circulation prior to the next meeting of the Committee on 12 September 2019.

6. **Public Participation**

There were no public questions or statements received at the meeting.

7. **Pensions Administration**

The Committee considered a report from officers on all operation and administration matters relating to the Fund.

HM Treasury (HMT) had launched a consultation on the implementation of a cap of £95,000 on exit payments to public sector employees. The cap would cover all costs of exit, including redundancy payments and pension strain costs. The proposals should be cost neutral to the Fund.

The cap was not indexed and had not changed since first proposed in 2015. Also, a salary ‘floor’ included in previous iterations of the proposals was not included in the consultation. The impact would be that lower paid employees with long service would now be more likely to exceed the cap.

Members felt that the lack of indexation and the removal of the ‘floor’ were not consistent with the assumed intention of the proposals to target higher paid employees. It was agreed that these elements of the proposals should be challenged. The Chairman asked members to feed any further comments on the consultation back to him. Officers would also seek the views of the Local Pension Board. The Local Government Association (LGA) had also submitted a very detailed and technical response to the consultation.

The Ministry of Housing, Communities and Local Government (MHCLG) had consulted on proposals to strengthen pensions protections for those scheme members outsourced from an existing LGPS employer to a different employer. The proposals introduced the concept of a ‘deemed employer’ where the original outsourcing employer remained the scheme member’s employer for pension purposes. Concerns about the practicalities of such arrangements had been raised.

MHCLG had also launched a consultation on proposals to change the actuarial valuation cycle from three to four years, changes to exit payments/credits, and allowing employers in the higher and further education sectors to decide whether to admit non-teaching staff into the LGPS in future. It was confirmed that the last of these proposals would not apply to academies.

Resolved
That members of the Committee feed any further comments on the consultation back to the Chairman.

8. **Independent Adviser's Report**

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 and concluded that a cautious approach to investment decisions continued to be advisable.

Globally, economies had slowed down and the response of central banks to this was critical. Growth in Europe had been disappointing, reasonable in the US, with Japan ‘coasting’. There had been a slowdown in emerging markets, particularly in China.

In the US, the Federal Reserve had paused monetary tightening as the threat of inflation had receded, with further interest rate reductions now believed to be more likely than interest rate rises. In Europe, the European Central Bank (ECB) was considering more Quantitative Easing (QE).

Equity valuations were high and the 10 year bull market was expected to end. Concerns about the US/China trade dispute continued as did other geo-political risks. The Independent Adviser recommended a cautious approach, although he did not foresee a market crash.

A member asked if US/Iran war could be a shock event that could cause a crash. The Independent Adviser noted that the price of oil had spiked up then quickly receded after recent events. If tensions escalated and the oil price stayed above US $100 a barrel, this could lead to a global recession. A member expressed his surprise about how unconcerned the investment community seemed to be about geo-political risks.

The Chairman asked the Independent Adviser to comment on the level of the Fund’s exposure to investments outside Europe, as this would mitigate against the risks of Brexit. The Independent Adviser confirmed that the Fund had a high level of exposure to investments outside Europe. Officers also highlighted the large proportion of income earned overseas by the UK’s largest companies.

A member asked about the Fund’s response to the climate change crisis. The Independent Adviser replied that there was now an increased focus on sustainability considerations and the risks posed to long term investment performance. He noted that the Brunel Pension Partnership would shortly be developing a sustainable global equities portfolio that could be considered by the Fund for investment.

In response to questions from members, it was confirmed that the Fund had a target allocation of 12% to property investments, and that the Fund had no exposure to the Woodford Equity Income Fund that had recently been closed to withdrawals.

Noted

9. **Presentation from Brunel Pension Partnership**

The Committee received a presentation from Matthew Trebilcock, Brunel Pension Partnership, the Funds investment pooling manager. The presentation gave a reminder of the reasons for pooling, an update on the review of governance arrangements, an update on portfolio development, and a summary of Brunel’s approach to responsible investment.

Noted

10. **Fund Administrator's Report**

The Committee considered a report by the Fund Administrator on the funding position, the valuation, performance and asset allocation as at 31 March 2019.

The funding level was estimated to have improved from 83% at the last triennial valuation, as at 31 March 2016, to just over 90% at the last indicative update, as at 31 December 2018. The estimated improvement was primarily the result of the large increase in asset values in 2016-17.

It was stressed that this was very much an indicative draft position. The Fund's actuary was working on a full assessment of liabilities and expected future returns on assets, with initial results expected in September 2019. The actuary would be invited to give an update at the meeting of the Committee in September and/or November 2019.

The value of the fund's investments at 31 March 2019 was just over £3 billion. This was a pleasing milestone to reach after a volatile year, with strong growth in the first two quarters, followed by a poor third quarter and ending with a very strong final quarter.

The return on investments for the year was 6%, which was above the discount rate of 5.4% used by the actuary in the last valuation, but below the combined benchmark return of 7.4%. In addition to underperformance by some managers, there were a number of other contributing factors for this.

The Fund had built up significant cash balances as a result of its recent more cautious approach. Returns on these balances were less than 1% so had been a drag on overall performance when investment markets had made significantly higher returns.

Performance in the year was also hit by the costs of transferring investments to the new Brunel portfolios, and the implementation of the new more challenging benchmark for Insight, the Fund's Liability Driven Investment (LDI) manager. Over the longer term, these changes were expected to deliver significant benefits from reduced fees and improved performance.

The performance of some managers was compared to 'cash plus' or 'absolute return' benchmarks. These benchmarks were not directly linked to market returns, so relative performance could be volatile over the shorter term.

Managers whose performance continued to raise concerns would be invited to future meetings of the Committee. However, actions to address ongoing performance issues with individual managers needed to be mindful of the timescales for transition to Brunel portfolios.

Noted

11. **Investment Pooling Progress Report**

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

As at 31 March 2019, investments valued at approximately £84m had transferred to portfolios under Brunel's management. This represented nearly 30% of the Fund' total assets valued at £3.0bn.

South West Audit Partnership (SWAP) had been asked to review whether the project was progressing as planned. SWAP concluded that the project was on track to deliver the planned benefits, and that asset transitions had been well monitored and scrutinised.

Noted

12. **Dates of Future Meetings**

Resolved

That meetings be held on the following dates:

12 September 2019	County Hall, Dorchester
26/27 November 2019	London (venue to be confirmed)
12 March 2020	County Hall, Dorchester.

Duration of meeting: 10.00 am - 12.45 pm

Chairman

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