Dorset Council

DORSET COUNCIL - PENSION FUND COMMITTEE

MINUTES OF MEETING HELD ON WEDNESDAY 27 NOVEMBER 2019

Present: Cllrs Andy Canning (Chairman), John Beesley, David Brown, Ray Bryan, Howard Legg, Mark Roberts, Peter Wharf (Vice-Chairman) and Adrian Felgate (Scheme Member Representative)

Apologies: Cllr Felicity Rice (BCP)

Also present: Christine Baalham, Steve Lee, Jonathan Parker, Investec Asset Management and Alan Saunders, Independent Investment Adviser

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

30. **Minutes**

The minutes of the meeting held on 12 September 2019 were confirmed and signed.

31. **Declarations of Interest**

No declarations of disclosable pecuniary interests were made at the meeting.

32. **Public Participation**

There were no questions or statements from Town and Parish Councils for members of the public at the meeting.

33. **Urgent items**

There were no urgent items.

34. **Presentation from Investec Asset Management**

The Committee received a presentation from Christine Baalham, Jonathan Parker and Steve Lee, Investec Asset Management, one of the pension fund's global equities managers.

Investec summarised their approach as looking for high quality, attractively valued companies with improving operation performance that were receiving increasing investor attention. This approach had delivered a good long term track record but they acknowledged that performance for Dorset since inception in December 2015 had not been good enough, and apologised for that.

The main reasons for underperformance were high positions in UK domestic based stocks that were hit hard by falls in sterling, reduced exposure to commodities prior to the fiscal stimulus in the US following the election of President Trump, and poor stock selection in the pharmaceutical sector due to shortcomings with their analysis.

The Independent Adviser believed that the reason for the underperformance was more fundamental. Investment approaches with a strong 'value' bias, such as Investec's, had underperformed investment approaches with a strong 'growth' bias.

Investec agreed that conditions had been difficult for value styles, but believed they should have been able to weather the storm because of the other factors they considered alongside value. They looked for market signals such as share price trends and earnings revisions to avoid 'value traps'. Resolution of the US/China trade dispute, leading to the removal of tariffs, would lead to a strong improvement in returns.

All investment styles had periods when they did not work, but Investec believed that ultimately the fundamentals of companies would be rewarded, and that markets could move quickly to reward value. The Chairman noted that it may be many years before such a turning point was reached.

The Vice-Chairman asked what Investec were doing to review their approach and did they believe it was it still fit for purpose. Investec were reviewing whether they were capturing value correctly, and therefore identifying the right companies in the right sectors. In sectors where shortcoming in their analysis had been identified, they had made improvements, including personnel changes.

Investec saw climate change as a material financial risk for energy companies as they are at risk of holding stranded assets and were exposed to decommissioning costs. Assessment of such risks forms part of their financial analysis. They also looked for engagement with companies.

The Chairman thanked Investec for their presentation.

Noted

35. **Annual Governance Compliance Report**

The Committee received the annual update on governance compliance from the Independent Governance Adviser. He was satisfied that good standards of governance, including the role of the Local Pension Board, had been maintained since his last report in November 2018.

In his opinion the pension fund's annual report for 2018/19 was compliant with the newly revised CIPFA guidance, and he described it as one of the best he had reviewed this year.

Investment pooling had given rise to a number of governance concerns. This included restrictions on the access of pension fund committees to the investment pools' underlying managers. Consultation on revised guidance on the governance of investment pooling from the Ministry of Housing, Communities and Local Government (MHCLG) was expected in early 2020.

The LGPS Scheme Advisory Board (SAB) had issued guidance in relation to responsible investing. Cllr Beesley had recently been appointed to the SAB, and he confirmed this topic was very high on SAB's agenda. SAB were also considering the results of the Hymans Robertson's report on good governance which included proposals to 'raise the bar' for the training requirements of members of pension fund committees.

The Independent Governance Adviser confirmed that the pension fund's actuary was a regulatory position, similar to that of an auditor, and was not an advisory position. The actuary was charged with setting employer contribution rates, and with keeping those rates as constant as possible. However, there should be an opportunity for the Committee to discuss the initial results, underlying assumptions and sensitivities of a valuation with the actuary prior to the finalisation of rates. It was suggested that at the next valuation an additional meeting of the Committee be held to discuss the initial results.

Resolved
That at the next actuarial valuation an additional meeting of the Committee be held to discuss the initial results, if the results are not available for the September meeting.

36. **Pensions Administration**

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

The CIPFA benchmarking results for 2019 evidenced a high standard of service, good quality data and cost efficiency for the administration of the pension fund compared to its comparator group.

The Guaranteed Minimum Provision (GMP) and contracting out reconciliation project was drawing to a close, and the pension fund would then need to commence the process of rectification. It was proposed that for scheme members who had been underpaid, future pensions would be corrected and arrears would be paid. For scheme members who had been overpaid, future pensions would be corrected but there would be no recovery of historic overpayments. The changes would require careful communication to the individuals affected.

The Pensions Administration Strategy (PAS) had been reviewed and updated. Financial penalties could be imposed on scheme employers as a last resort. Where penalties have been applied they had led to an improvement in performance.

Administering authorities in the LGPS had an obligation to provide access to an in-house Additional Voluntary Contribution (AVC) arrangement for their scheme members. It was agreed that a review of the current arrangements was required.

Performance against Key Performance Indicators (KPIs) was generally good. The two exceptions both related to ‘transfers out’. It was explained that at times of high demand on the service, performance against these two KPIs was allowed to slip temporarily so that activities that impacted scheme members directly were prioritised.

Resolved

1. That the proposed approach to Guaranteed Minimum Provision (GMP) rectification be taken.
2. That the revised Pensions Administration Strategy (PAS) be approved.
3. That there is a review of the current in-house AVC arrangements.

37. **Independent Adviser's Report**

The Committee considered a report by the Independent Adviser that gave his views on the economic background to the pension fund’s investments, the outlook for different asset classes and the key risks for markets.

Markets had seen a recovery over the quarter, driven by the relaxation of monetary policy by central banks. The US was unlikely to go into a recession and there was greater optimism about a US-China trade deal.

Growth in the UK and Europe was more sluggish. There was uncertainty over Brexit and the UK general election, and markets were sceptical that a UK-EU trade deal could be concluded by December 2020. UK commercial property had seen a slight fall in capital values.

There was a challenge to the pension fund’s inflation hedging arrangements from the possibility of the Retail Price Index (RPI) being replaced by the Consumer Price Index including housing costs (CPIH). This had an adverse impact on the prices of assets with income streams linked to RPI, such as index linked government bonds. The government was expected to launch a consultation on the proposed changes in 2020. Officers and the Independent Adviser were asked to produce a summary of risk mitigation options for consideration at the next meeting of the Committee.

The strategic asset allocation would need to be reviewed as a consequence of the triennial actuarial valuation, and it was agreed that investment consultants should be appointed to assist with this. Significant changes were not expected, although the Liability Driven Investment (LDI) allocation would need to be reviewed in light of the potential changes to inflation indexation measures. It was confirmed that asset allocation remained the responsibility of the Committee and had not transferred to Brunel.

Resolved

1. That officers and the Independent Adviser provide a summary of risk mitigation options relating to the possible change from RPI to CPIH for the next meeting of the Committee on 12 March 2020.
2. That investment consultants be appointed to assist with the review of the pension fund’s strategic asset allocation.

38. **Fund Administrator's Report**

The Committee considered a report by the Fund Administrator on the pension fund’s funding position, valuation, performance and asset allocation as at 30 September 2019.

Barnett Waddingham, the pension fund’s actuary, had completed their triennial review as at 31 March 2019. The funding level had improved from 83% at the last triennial valuation, as at 31 March 2016, to 92%.

The value of the fund’s investments at 30 September 2019 was just over £3.1 billion. The return on investments for the financial year to 30 September 2019 was 5.1%, compared to the combined benchmark return of 4.8%. The return on investments for the last 12 months was 5.2%, compared to the combined benchmark return of 5.9%.

The presentation from Investec had not given the Committee sufficient confidence that under performance would be rectified prior to the planned transition to the Brunel active core global equities portfolio expected late 2020. It was therefore agreed that the mandate should be terminated. Assets would initially transfer to the Brunel passive global equities portfolio, with a further onward transfer to the Brunel active core global equities portfolio to be considered at a later date.

Resolved

That the mandate with Investec be terminated, with assets transferred to the Brunel passive global equities portfolio as soon as practical.

39. **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 30 September 2019, investments valued at approximately £960m had transferred to portfolios under Brunel’s management. This represented just over 30% of the pension fund’ total assets valued at £3.1bn. A further £125m was planned to transition before the end of November 2019 to Brunel’s Global

High Alpha Equities portfolio. This would take assets under Brunel's management to approximately £1.1bn.

Cllr Beesley, the pension fund's representative on the Brunel oversight board, reported that the board were reviewing the level of scrutiny and challenge of Brunel's activities, especially in relation to responsible investing and other environmental, social and governance matters.

There was an update on progress in appointing a new Chief Executive Officer (CEO) for Brunel, replacing Dawn Turner, who left the company at the end of September 2019. It was suggested that the new CEO, when appointed, the company chairperson and/or the shareholder non-executive director be invited to a meeting of the Committee in 2020.

Resolved
That the new CEO, chairperson and/or the shareholder non-executive director be invited to a meeting of the Committee in 2020.

40. **Date of Future Meeting**

Resolved
That meetings be held on the following dates:

12 March 2020 County Hall, Dorchester.

41. **Exempt Business**

Resolved
That the Press and the Public be excluded for the following item(s) in view of the likely disclosure of exempt information within the meaning of Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended).

42. **Request from Employer to Change their Guarantee Provision**

The Committee considered a request from an employer to change their guarantee provision against any future unmet liabilities and/or costs from a bond to an alternative arrangement.

Resolved
That officers discuss and reach agreement with the employer for a suitable alternative financial guarantee to a bond.

Duration of meeting: 10.00 am - 1.40 pm

Chairman

....