

The **PENSION FUND INVESTMENT BOARD** met at **WARWICK** on the 3rd **AUGUST, 2007**

Present:-

Councillor Chris Davis (Chair)
“ Bob Hicks
“ Helen McCarthy
“ Brian Moss

Fund External Advisor

Peter Jones

Officers

Resources Directorate

Oliver Winters
Matthew Dawson
Phil Triggs
Neil Buxton

Performance & Development Directorate

Tony Maione

Also Present:-

Chris Hull, Mercer Human Resource Consulting
Keith Bray, Local Authority Pension Fund Forum

1. Election of Chair

Councillor Helen McCarthy, seconded by Councillor Bob Hicks, moved and it was unanimously Resolved:-

That Councillor Chris Davis be elected Chair of the Warwickshire Pension Fund Investment Board until the appointment of his successor in accordance with Standing Order 2.8.

The Chair said that Chris Hull was attending the meeting this morning en route to a family holiday; he proposed to vary the order of business on the agenda to take his presentation now so as not to delay his departure for too long. This was agreed. The issues arising from the presentation are recorded at minute 4.

At the end of the presentation, the Board adjourned from 11.30 a.m. to 11.40 a.m.

On resumption, the Chair took the presentation by Keith Bray and the issues related to this are recorded at Minute 5

2. General

(1) Apologies for absence

An apology for absence was submitted from Councillor John Appleton.

(2) Members Declaration of Personal and Prejudicial Interests

Councillors Chris Davis and Helen McCarthy disclosed personal interests as members of the Pension Fund.

(3) Minutes of the meeting held on the 18th May 2007 and any matters arising.

(i) Minutes

Resolved:-

That the minutes of the Pension Fund Investment Board's 18th May 2007 meeting be approved and be signed by the Chair.

(ii) Matters arising
Minute 5(1) – Share Voting

It was noted that members had received information on this at the seminar held on the previous day.

3. Investment Performance

The report of the Strategic Director of Resources was considered.

The following points arose during the discussion:-

- (1) The Fund value was over £1bn at the date shown in the report and now consistently around the £1bn mark.
- (2) The black boxes at the bottom of the tables in Figures 2 and 3 had misprinted and should have shown months from December 2005 to June 2007.
- (3) Table 1 showed that BlackRock was still holding a balance of funds that were to be transferred to the Property Fund Managers. This was in accordance with the Board's decision that funds should be transferred to those managers on a phased basis as when the investment opportunities became available.
- (4) It was agreed that the position of fund managers would be reviewed at the November meeting that would coincide with the three-year anniversary of the new portfolio.

4. The Triennial Valuation

The report of the Strategic Director of Resources was considered.

The following points arose during Chris Hull's presentation and ensuing discussion on the issues:-

- (1) The valuation would be assessed as at 31st March 2007 with any changes to employers' contributions taking effect from the 1st April 2008.
- (2) Figures used in the presentation were indicative in light of assessed liabilities and funding assumptions. More detailed work would take place over the next two months as officers supplied further valuation data.
- (3) Unlike some schemes the Local Government Pension Scheme was still open to new entrants and continued future service accrual for existing members and therefore to increasing liabilities.
- (4) The Government were talking about the possibilities that further changes to the scheme (after the 1st April 2008 new look scheme introduction) might still be warranted.
- (5) There were four stages to the process – funding strategy assumptions and principles, investment strategy/structure, deficit recovery strategy, and consultations with employers.
- (6) Pensions being paid currently, deferred pensions and benefits earned through past service by current employees were guaranteed. These were all part of the LGPS employees' remuneration packages.
- (7) Scheme members were living longer and there was compelling evidence that this would continue in the future.
- (8) The new look scheme that was due to come in force on the 1st April 2008 would have a cost impact as it was estimated to be 1 to 1½% more costly for employers.
- (9) At the previous valuation in 2004, a twenty-five year deficit recovery period had been agreed. If that period were not to be extended, any recovery would have to be calculated over the remaining twenty-two years.
- (10) The introduction into the scheme of an option to commute part of the annual pension into a lump sum at the rate of £1 of pension for £12 of lump sum was a favourable rate to the Fund. If there were a 25% take up of this option it could lower the amount of employers' contribution required by ½%, rising to 0.9% if there were a 50% uptake.
- (11) Although indicative figures suggested a substantial rise in employers' contributions may have to be considered, further work was needed to determine the actual figure.
- (12) Officers would engage with Chris Hull over the forthcoming weeks to agree the Warwickshire specific inputs for the parameters to be used in the valuation of the fund.

- (13) There were around sixty different employers involved in the Warwickshire scheme.
- (14) Chris Hull would determine individual contribution rates for employers.

5. The Local Authority Pension Fund Forum

The report of the Strategic Director of Resources was considered together with the presentation by Keith Bray. The following points arose:-

- (1) The Forum concerned itself with the sixth Myners Principle that related to activism, namely *Trustees should ensure they have an explicit strategy on Activism elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.*
- (2) CIPFA guidance was that authorities might wish to seek alliances with a group of local authority pension funds, to utilise the benefits of collective size where there was common interest to influence companies on issues relating to corporate governance.
- (3) The Forum: optimised local authority pension funds' influence as shareholders to promote corporate social responsibility and high standards of corporate governance; facilitated commissioning research and policy analysis of issues more effectively than individual members; provided a forum for consultation on shareholder initiatives; provided a forum for information exchange and discussion about investment issues and provided a forum to consider issues of common interest to all pension fund administrators and trustees.
- (4) There were four or five business meetings a year and an annual general meeting. Each member Fund had one vote at meetings irrespective of the size of the fund as there was a standard membership fee but decisions were generally reached by consensus. An annual conference was held. In between meetings an executive operated comprising councillors with the support of two officers acting in an honorary capacity.
- (5) The Forum contracted with PIRC to supply it with research, advice and assistance. It also contracted with Keith Bray for marketing, publicity and development work.
- (6) Current membership consisted of 42 local authority pension funds with a value of £80bn.
- (7) Although the Forum encouraged elected member participation, it was a matter for each fund to determine its own representation. Some funds sent elected members, some sent officers and others sent both.
- (8) Current areas of concern related to boardroom structures, directors' pay, environmental issues, supply chain labour standards and the appointment of and rôle of auditors. The Forum frowned upon the practice of some companies in appointing their auditors also in a consultative rôle.
- (9) The Forum supported the Institute of Directors' Chartered Director qualification.

- (10) The Forum had no problems with high rewards for success but was opposed to 'fat cat' pay deals rewarding poor performance. It supported one-year contracts and also looked at targets to ensure that they were sufficiently demanding to justify the remuneration.
- (11) The Forum issued alerts on issues of interest to its membership.
- (12) The Forum offered a collaborative approach to shareholder activism.
- (13) The Forum preferred to engage with companies rather than be confrontational.
- (14) The Department for Communities and Local Government (DCLG) supported activism and the Forum while Terry Crossley, Head of Local Government in that Department, had been a keen supporter of the Forum for many years.
- (15) The annual subscription was £8,460 or £8,250 per annum for a three-year membership.

Members were impressed by the work of the Forum. Peter Jones confirmed that he was in full support of the Warwickshire Fund joining the Forum, as it should be grouping together with other funds.

Councillor Bob Hicks, seconded by Councillor Brian Moss, moved and it was unanimously Resolved:-

That the Warwickshire Pension Fund Investment Board joins the Local Authority Pension Fund Forum and that the Regulatory Committee be asked to agree that the Board's Chair or his nominee be appointed to the Forum together with the Strategic Director of Resources or his nominee.

6. The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2007

The report of the Strategic Director of Resources was noted.

7. Standard Life AVC Arrangements: Investment Performance Monitoring Report

The report of the Strategic Director of Resources was considered and it was Resolved:-

That the Pension Fund Investment Board note the contents of the report and instruct the Strategic Director of Resources to liaise further with Mercer about extending the range of investments available through Standard Life or an alternative provider.

8. Manager Skills Analysis and Transaction Cost Analysis

The report of the Strategic Director of Resources was considered.

Members had not been impressed by the demonstration they had been given the previous day. Phil Triggs confirmed that the demonstration had not done justice to the product.

Peter Jones said that the information provided could help inform the Board in their consideration of the performance of the fund managers in November.

The Board asked the officers to look into the possibility of commissioning Analytics to carry out a piece of work in examining the performance of the fund managers since appointment.

9. Status of Solihull School

The report of the Strategic Director of Resources was considered and it was Resolved:-

That the Pension Fund Investment Board notes the change in the legal form of Solihull School, that this change has no material effect on any matter relevant to Solihull School's membership of the Warwickshire County Council Pension Fund, and that Solihull School continues its status as a member of the Warwickshire County Council Pension Fund in its new legal form.

10. Restructuring of Heart of England Housing Group and the Amalgamation with the Orbit Housing Group

The report of the Strategic Director of Resources was considered and it was Resolved:-

That the Pension Fund Investment Board notes the change and agree in principle that Heart of England Housing Group continues its status as a member of the Warwickshire County Council Pension Fund.

11. Review of Performance and Decisions of Trustees and Advisors in 2006/07

The report of the Strategic Director of Resources was considered.

It was then Resolved:-

(1) That Mercer -

- (i) provided invaluable advice in the formulation of the Fund's Statement of Investment Principles.
 - (ii) provided consultancy advice to the Board in its Investment strategy and the resultant diversification into alternative investments.
 - (iii) advised on an appropriate manager structure for the diversified portfolio.
 - (iv) Assisted in the resultant tendering process in the selection of property and hedge fund managers.
- (2) That Peter Jones performed to the highest standards in the following areas:-
- (i) assistance in helping the Pension Fund Investment Board question fund managers on their performance.
 - (ii) advice on Investment Strategy.
 - (iii) assistance in selecting and monitoring of investment managers.
- (3) That the Members of the Pension Fund Investment Board consider the self-assessment criteria set in Appendix A with a view to identifying for the next meeting any areas where they thought improvements could be made.

12. Any other items

Nil.

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Chair of Board

The Panel rose at 1.27 p.m.