

Minutes of the Pension Fund Investment Board held on 18 February 2013

Present:

Members of the Board

Councillors John Appleton, Chris Davis (Chair), Jim Foster, Robin Hazelton, and Brian Moss

Officers

Dave Abbott, Democratic Services Officer

Neil Buxton, Pensions Services Manager

Mathew Dawson, Acting Treasury and Pensions Group Manager

John Galbraith, Senior Solicitor, Employment Team

Christie Gough, Senior Accountancy Assistant

Andrew Lovegrove, Head of Corporate Financial Services

Invitees

Peter Jones, Independent Advisor

Paul Potter, Advisor, Hymans Robertson

Richard Warden, Advisor, Hymans Robertson

Simon Brazier, Head of UK Equities, Threadneedle Investments

Moira Gorman, Client Director, Threadneedle Investments

1. General

(1) Apologies

None.

(2) Disclosures

Councillors Robin Hazelton, Chris Davis, and John Appleton declared non-pecuniary interests as members of the Local Government Pension Scheme.

(3) Minutes of the previous meeting

Accuracy

The advisor from Hymans Robertson was Alison Galbraith not Allison Murray.

With the correction above the minutes were agreed as a true record and were signed by the Chair.

Matters Arising

Page 1 of 4 - Investment Performance

Hymans Robertson had investigated the issue but were still not satisfied that the benchmarking figures from BNYM were correct.

The Board agreed to communicate with BNYM to express their disappointment with the accuracy of this information. It was important that the issue was resolved swiftly because the figures affect performance assessments.

2. Investment Performance

Mathew Dawson, Acting Treasury and Pensions Group Manager, presented the report and informed members that performance had been positive over the previous quarter. Although not included in the report, the performance figures for January 2013 showed even better performance.

Paul Potter, Hymans Robertson Advisor, informed the Board that in Figure 3.3, the Threadneedle property benchmark figure of 4.10 was incorrect – the actual figure was around 1.3.

Councillor Brian Moss asked what the funding level of the total fund was. Officers responded that it was around 75% funded.

Peter Jones, Independent Advisor, asked what the outcome of decisions about automatic rebalancing had been.

Paul Potter responded that actuaries were currently drafting the documentation to restart automatic rebalancing of the fund.

Resolved

That the Pension Fund Investment Board note the fund value and investment performance for the third quarter in 2012/13 to 31 December 2012.

(Councillor John Appleton entered the room)

3. Absolute Return Managers – Transition Outcome

Mathew Dawson, Acting Treasury and Pensions Group Manager, presented the report and informed members that, following the previous decision of the Board to transfer assets from two existing passive managers to two newly appointed managers, Officers and Advisors had postponed the investment from December until January. This strategy ensured a smooth transition at minimal cost to the fund.

Officers noted that the transfer illustrated the value of BlackRock, the appointed transition manager. The spread costs incurred were just 0.25%, or £331,170 on investments of £120m.

Resolved

That the Pension Fund Investment Board approve the current position.

4. Revision to Active UK Equity Mandate

Moira Gorman, Client Director at Threadneedle Investments and Simon Brazier, Head of UK Equities at Threadneedle Investments gave a presentation to the Board.

Simon Brazier addressed the Board and made the following points:

- Threadneedle have delivered more than the outperformance target and hope to continue this over a 3 year period.
- Threadneedle believe that markets are inefficient and there was significant opportunity to add value above the benchmark.
- Detailed valuations were at the heart of their investment process.
- Threadneedle construct diversified portfolios that were able to deliver consistent risk adjusted returns.

Portfolio Strategy

Simon Brazier informed members that he believed the portfolio was constrained by the current strategy. He requested that the current restrictions on stock and sector weightings were amended to allow Threadneedle more flexibility to manage the fund. The proposal would allow Threadneedle to deliver better performance.

Paul Potter informed members that most of the portfolios Threadneedle managed had the same proposal in place and agreed that it was an appropriate approach for the fund. Peter Jones also approved of the proposal and noted that it brought Threadneedle in line with changes made to the MFS strategy around one year ago.

Resolved

That the Pension Fund Investment Board approves the proposal set out in 3.1 and 3.2 of the report.

5. ComPASS Modelling Whole Fund and County Council

Richard Warden, Hymans Robertson Advisor, presented the report and made the following points:

- The modelling in the report allowed a longer term view of different funding strategies and risk profiles.
- The modelling only applies to the larger, long-term, secure employers in the fund (e.g. the Police).
- The scenarios in the report show the probability of various funding strategies succeeding, allowing Officers and Advisors to use the models to feed into the strategic choices that the fund makes.

From the modelling presented in the report, Scenarios 4 and 5 (Page 6) were considered the most prudent options. Hymans Robertson recommended Scenario 4 as the most appropriate option and asked members for their thoughts.

Councillors supported Scenarios 4 or 5 in principle but requested that the final decision waited until the valuation.

Resolved

That the Pension Fund Investment Board note the report.

6. Chancellor's Autumn Statement – Reduction to Lifetime Allowance and Annual Allowance

Neil Buxton, Pensions Services Manager, presented the report and informed members that the Autumn Statement included reductions in the lifetime and annual pensions allowance effective from April 2014. In principle this was a personal tax issue for individuals, but Officers had identified around 50 - 60 individuals in the fund that could breach that limit. Communications will be posted to ensure LGPS members are aware of the issue.

7. Councillors' Pensions

Neil Buxton, Pensions Services Manager, presented the report and made the following points:

- It was proposed that Councillors' access to the LGPS was removed from 1 April 2014.
- Councillors currently in receipt of their pension would not be affected.
- Only around 65 members were contributing to the pension scheme.
- The proposal was going to consultation shortly and may change depending on the strength of the responses.
- Councillors would be contacted for their views when the consultation comes out.

Some Councillors believed that the proposal would not save very much money and would make recruitment of Councillor more difficult.

Councillor Jim Foster supported the proposals to remove Councillors from the LGPS.

8. Local Government Pension Scheme: Draft regulations on membership, contributions and benefits

Neil Buxton, Pensions Services Manager, presented the report and updated the Board on the final regulations that had gone out to consultation. The information on cost control was still outstanding.

A copy of the consultation paper had been sent to all employers in the Fund.

9. Automatic Enrolment

Neil Buxton, Pensions Services Manager, presented the report and informed members that the measure could add a significant number of employees to the fund although there was no indication of how many at this stage. The number partly depended on the earnings limit with respect to casual staff (whose earnings are different month to month).

Officers agreed to update members on future developments.

10. The Stewardship Code Statement

Mathew Dawson, Acting Treasury and Pensions Group Manager, presented the report and informed the Board that the report was an update to the Stewardship Code proposals already approved by members. The service fulfilled all of the principles required except for Global Voting, in which the fund would be compliant shortly. The revised statement of investment principles due before the Board on the 8th of April 2013 would include the Stewardship Code principles.

Resolved

That the Pension Fund Investment Board approve the principles and sign the Stewardship Code.

11. Academies

Neil Buxton, Pensions Services Manager, presented the report and informed members of the current position statement on the status of Academy schools in Warwickshire.

12. Police and Crime Commissioners: Police Civilian Staff Pension Arrangements

Neil Buxton, Pensions Services Manager, presented the report and informed members of the pension arrangements for civilian staff as a consequence of the creation of the Police and Crime Commissioners. The arrangements could affect around 600 civilian staff and Officers agreed to keep the Board informed of future developments.

13. Community Meals

Neil Buxton, Pensions Services Manager, presented the report and informed members that the Treasury and Pensions was approached by the People Group regarding the TUPE of the Community Meals contract. Nottingham

County Council had been providing the service since April 2010 but this would cease on 31 March 2013.

Legal officers took the view that because the employees were not originally employed by WCC when the contract was first transferred they are not have an automatic right to membership of the LGPS.

John Galbraith, Senior Solicitor, advised members that the group had not officially approached the Local Authority yet and members agreed to defer the decision until that happened.

14. Any other business

Andrew Lovegrove, Head of Corporate Financial Services, informed the Board that Grant Thornton had been appointed as the new auditor following the decommissioning of the Audit Commission. As a result of this new arrangement the audit fee had been reduced by 40%. The Pension Fund was due to be audited in July 2013.

The Board rose at 13:10pm

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Chair