

Minutes of the Pension Fund Investment Board held on 8th April 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

John Betts, Head of Service, Finance

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

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

Following late delivery of the hard copy of the meeting papers, the Chair requested that for future meetings, a hard copy was delivered to members at least five working days before the meeting date.

Matters arising

BNY Mellon performance benchmarks

Officers had arranged to meet with analysts from BNY Mellon to resolve issues with the performance benchmarks. Councillor John Appleton requested a report on the issue and its hopeful resolution at the next meeting of the Board.

ComPASS modelling

Councillors asked for an Officer summary of the ComPASS modelling presentation delivered at the previous meeting.

The minutes were agreed as a true record and were signed by the Chair.

2. Pension Fund Income

Mathew Dawson, Acting Treasury and Pensions Group Manager, presented the report and informed members that at the meeting of 12 November 2012 the Board approved the proposal to draw income from mandates held by Legal and General and Threadneedle (UK equity). This decision was taken to plan ahead for future periods of cash flow negativity as a more sustainable alternative to selling passive units in order to cover short term costs.

Councillor Robin Hazelton asked how much surplus non-earning funds resided in the custodian account. Mathew Dawson responded that the figure was usually between £500k and £1m. In the future there would be a possibility of using interest-bearing accounts for these funds.

3. UK Rating Downgrade

Mathew Dawson, Acting Treasury and Pensions Group Manager, presented the report and informed members that the rating agency Moody's had downgraded the UK's Aaa top credit rating to Aa1 at the end of February 2013. The downgrade had not significantly impacted the market and Officers advised members not to make any amendments to the Pension Fund's investment strategy at this time.

Paul Potter, Hymans Robertson Advisor, informed members that the UK was still regarded as a safe-haven for investors and supported the recommendation in the report.

Resolved

Despite the downgrading it is recommended that no amendments are made to the asset allocation at this time.

4. Pension Fund Business Plan 2013/14

Mathew Dawson, Acting Treasury and Pensions Group Manager, presented the Business Plan report for 2013/14 and informed members that the final version would be published online at the beginning of November 2013.

Administration

Neil Buxton informed members that WCC was moving to a career average scheme in 2014 and the Pensions Service would be supporting employers with this change throughout 2013.

Communication

The date for the AGM was confirmed as 28 November 2013.

Actuarial/Funding

Mathew Dawson highlighted the 2013 valuation as the key task for the remainder of the year. Officers have undertaken initial meetings and expect the final data to be submitted by the end of July. Councillor John Appleton suggested that the date of receipt of the valuation was added to the business plan.

Pension Fund Investment Board Members

Following the election in May there will be a number of training opportunities for Pension Fund Investment Board members; training on assets and investments for newer members, a bespoke training session on liabilities and how they move in relation to gilt yields and longevity, and members will be given access to the knowledge and skills toolkit developed by Hymans Robertson. The system has modules that cover all areas of pensions and is based on the industry standard CIPFA knowledge and skills framework.

Financial & Risk Management

Mathew Dawson informed members that the Risk Assessment and Disaster Recovery were key tasks for 2013-14 and there would be a report coming to a future meeting of the Board covering these topics in more detail.

Councillor John Appleton requested that pension fund expenses (including a full breakdown of fees) were reviewed annually by the Board.

Investment

Mathew Dawson informed members that Action 3 referred to a potential move into infrastructure but noted that Infrastructure was the only pre-valuation asset allocation that Officers and Advisors were considering.

With the amendments noted above, Councillors supported the business plan and it was resolved as set out below.

Resolved

That the Board approve the Warwickshire County Council Pension Fund Business Plan for 2013/14 as set out in Appendix A.

5. Revision to the Statement of Investment Principles

Paul Potter, Hymans Robertson Advisor, presented the report and informed members that the Statement of Investment Principles had been revised to reflect decisions made by the Board over the previous 12 months. In summary the changes included; a strengthened statement on risk (page 2-3), changes to the Stewardship Code, and changes to the Threadneedle investment strategy.

Peter Jones, Independent Advisor, supported the revised statement but suggested the following change:

- **4.2 Realisation of Investments** – ‘less than 15% of fund assets’ to be changed to ‘around 15% of fund assets’
- **Page A15** – MFS: Active Global Equities – the allowable range for both Global Equities and Cash should be +/- 5.0.

Councillor John Appleton requested that a paragraph was included to clarify that a key principal was diversification in order to decrease risk.

Resolved

That the new SIP be adopted.

6. Introducing Infrastructure

John Betts, Head of Finance, informed members that in recent months there had been increased pressure, from both Central Government and local agencies, for the Pension Fund to invest in local infrastructure projects.

Paul Potter, Hymans Robertson Advisor, made a presentation to introduce infrastructure investment to members and highlight some of the positives and negatives of the asset class:

- Infrastructure provides stable income streams that are often inflation-linked. Investments typically involve a strong sponsor, either a Government or a large corporation (e.g. an energy company).
- Infrastructure is not as heavily influenced by the wider economy as it involves monopoly situations and strict regulation.
- States and banks are trying to divest themselves of infrastructure and now, increasingly, finance is being taken up by Pension Funds. There has been more investment by public sector schemes as they can afford to take a longer term view than private sector schemes.
- However, investing in local infrastructure creates significant conflict of interest risks and reputational risks.
- The Local Government Association has suggested a national pooling of infrastructure investments to share risk and avoid the inherent conflicts of interest issues.
- Investment in infrastructure should not be seen as a way to further County Council policy. All investments should be judged on their own merit and need to be legally defensible.

Officers recommended that if the Pension Fund invests in infrastructure, it should be through a fund of funds managed by a specialist infrastructure manager.

Councillors asked to see more detailed infrastructure funding options at the next Board meeting.

Resolved

That the board approve Hymans to prepare a scheme focussed training session and suggested approaches of initial investment into the asset class at the board meeting on 29 July 2013.

7. Amendment to LGPS Administering Authority Policy

Neil Buxton, Pensions Services Manager, presented the report and informed members that the Administration Authority was statutorily required to maintain and review its policies.

Councillor John Appleton requested that the policy in 4.3 was amended to: "Consideration will be given to waive the actuarial reduction to the benefits where the former member has had to give up work to provide for a chronically ill spouse or partner **subject to satisfactory evidence**"

Resolved

That the Board approves the proposed amendments to the policies set out in 2.3, 3.3 and 4.3 of the report.

8. Admission: Complex Needs Service

Neil Buxton, Pensions Services Manager, presented the report and informed members that following the outsourcing of the complex needs service the companies employees were transferring into the scheme. The arrangement involved 82 members of the LGPS. WCC's Legal Services were finalising the admission agreement and expected the contract to begin from 1 June 2013.

Councillor John Appleton asked who was responsible for financially assessing the company. John Betts informed members that the People Group would have carried out the assessment but agreed to check the details of the assessment and respond to Councillors outside of the meeting.

Resolved

This report is to confirm to the Board the admission agreement for the outsourcing of the Complex Needs Service.

9. Admission: Special Schools Catering Contract

Neil Buxton, Pensions Services Manager, presented the report and informed members that the admission was for a schools catering contract, involving three members, for three years. The company was already a member of the Warwickshire fund.

Resolved

That the Pension Fund Investment Board note the admission of Taylor Shaw Catering Ltd to the Warwickshire Pension Fund in respect of these two contracts.

10. Any Urgent Items

Neil Buxton informed members that WCC had six retired members living in Cyprus but all of them have UK bank accounts and have been contacted by the Pensions Service to ensure they continue to receive their pensions.

Members of the Board thanked the Chair, Councillor Chris Davis, for his service to the Pension Fund Investment Board over the last four years, and wished him well in his retirement.

The Board rose at 12:10pm

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Chair