

Minutes of the Pension Fund Investment Sub-Committee meeting held on 29 July 2013

Present:

Members

Councillors John Appleton, Sara Doughty, Bill Gifford, John Horner, 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 Investment Advisor

Paul Potter, Investment Advisor, Hymans Robertson

Richard Warden, Actuary, Hymans Robertson

1. General

(1) Election of the Chair and Vice Chair

Councillor Brian Moss, seconded by Councillor Sara Doughty, moved and it was unanimously resolved that Councillor John Appleton take the position of Chair of the Pension Fund Investment Sub-Committee.

Councillor John Appleton, seconded by Councillor Brian Moss, moved and it was unanimously resolved that Councillor John Horner take the position of Vice Chair of the Pension Fund Investment Sub-Committee.

(2) Apologies

None.

(3) Disclosures

Councillors John Appleton and Sara Doughty declared non-pecuniary interests as members of the Local Government Pension Scheme.

(4) Minutes of the previous meeting

The minutes of the meeting held on 8 April 2013 were agreed as a true record.

2. Investment Performance

2.1 Mathew Dawson, Acting Treasury and Pensions Group Manager, presented the report and informed members that the fund's value was £1,377.9m at 31 March 2013 due to positive performance across all asset classes. This valuation would be used to form the basis of the upcoming actuarial valuation. The fund out-performed its overall benchmark by 0.27%.

2.2 Councillor Bill Gifford requested that future reports stated the responsibilities of each of the fund managers. Mathew Dawson informed members that the managers were responsible for the following areas:

Manager	Responsibility
SSGA (State Street)	UK Equity
HarbourVest	Private Equity
Schroders	Property Manager
Threadneedle Property	Property Manager
Blackstone	Hedge Fund
JP Morgan	Absolute Return Manager
Barings	Absolute Return Manager
LGIM (Legal and General) Bond	Fixed Income
LGIM (Legal and General) Equity	Equity
MFS	Global Equity Manager
Threadneedle Equity	Equity
BGI (BlackRock)	Multi-asset fund

2.3 Councillor Bill Gifford asked who set the benchmark for each of the managers. Paul Potter responded that each manager was given a relevant benchmark for their area.

2.4 Peter Jones and Paul Potter noted that performance across all managers was very encouraging.

2.5 Resolved

That the Pension Fund Investment Sub-Committee noted the fund value and investment performance for the fourth quarter in 2012/13 to 31 March 2013.

3. Infrastructure Options

3.1 Paul Potter, Hymans Robertson, addressed the committee and informed members that the report highlighted various methods of accessing the infrastructure asset class, the underlying risks, and associated returns.

3.2 Infrastructure assets were typically defined as assets that were crucial for the functioning of the economy (e.g. oil pipelines, communications networks, railway lines etc.). These assets tended to be part of natural monopolies that are regulated by the government and as such are generally immune from traditional economic cycles.

3.3 Hymans Robertson advised the committee to look at a broad range of infrastructure assets across different markets and sectors. The majority of these types of infrastructure assets are privately held companies and would be most easily accessed through a fund of funds.

3.4 Councillor Sara Doughty asked what how ethical considerations were factored into the decisions of the sub-committee. Mathew Dawson responded that the pension fund's approach was that of a responsible shareholder. Paul Potter responded that all fund managers had their own ethic policies and it was the responsibility of officers and the sub-committee to challenge those policies.

3.5 Paul Potter advised members that there were risks to infrastructure – for example in areas where regulators set price controls the businesses have to operate and maintain their infrastructure within those cost controls. There were also potential conflicts of interest if the fund chose to invest in local projects.

- 3.6 Councillor Bill Gifford asked what percentage of the fund should be invested in infrastructure if the sub-committee were to agree the proposal. Paul Potter suggested building up to a target of 5%.
- 3.7 Councillors agreed that infrastructure investments were attractive for the fund and management options should be investigated by officers. Councillors also requested more training from Hymans Robertson on the asset class.
- 3.8 Resolved**
1. That the Board agree an approach of initial investment(s) into infrastructure following the training by Hymans Robertson and subsequent discussions.
 2. That officers investigate investment in infrastructure assets through a fund of funds.

Presentation from MFS Investment Management

Annie Healy, Relationship Manager at MFS, addressed the Sub-Committee and informed members that MFS was a Global Equity Manager with a number of major public sector clients, of which Warwickshire was one of the first. MFS had a global research platform and collaborative structure that aimed to deliver a robust stock-picking process to drive performance. MFS had been running equities for 20 years and had confidence that even in downturns they could deliver strong performance. Over the past three years MFS had significantly outperformed the 1.5% per annum target set by the fund.

Ben Kottler, Investment Manager, addressed the Sub-Committee and informed members that MFS look to find businesses that create above average returns over the long term. MFS focussed on high quality companies which ensured resilience in tough market conditions.

The Chair thanked the representatives from MFS for their presentation and congratulated them on their impressive investment performance.

4. Exempt Items – Reports Containing Confidential or Exempt Information

4.1 Resolved

The Pension Fund Investment Sub-Committee passed the following resolution: That members of the public be excluded from the meeting for the item mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

5. ComPASS Modelling – Warwickshire County Council (Exempt Report)

- 5.1 Richard Warden, Hymans Robertson, presented the report and informed members that ComPASS was a tool used to project assets and liabilities over the long term. The projections from this process could then be used to set stable contribution rates and aid employers in their budget planning.
- 5.2 The Warwickshire fund was currently in the valuation process. One of the key purposes of the valuation process is to set the contribution rates. The first round of

estimates will be presented in October. The final contribution rates will be agreed by the sub-committee in April 2014.

- 5.3 Councillor John Horner asked if the fund currently had a stabilisation mechanism in place. Hymans responded that there was no formal mechanism. The stabilisation mechanism proposed from the ComPASS modelling was designed to prevent significant swings in the contribution rate going forward and helped employers with their budget setting. The mechanism would also bring transparency to the process.
- 5.4 Councillor John Horner asked how long the increases would be implemented for. Officers responded that using the stabilisation model would fix the contribution rates for three year periods, after which they would be reviewed by the Sub-Committee.
- 5.5 Councillors agreed to the stabilisation strategy in principle but requested further training, particularly around the fund's liabilities and how these can be mitigated going forward.
- 5.6 Resolved**
1. That the Pension Fund Investment Sub-Committee agree to the stabilisation strategy in principle.
 2. That the Board approve further discussion and decision making amongst officers and employers to determine if there is a case for similar stabilisation strategies for the more secure employers in the fund.

The Board rose at 12:55pm

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Chair