

Pension Fund Investment Sub-Committee

10 February 2014

Agenda

The Pension Fund Investment Sub-Committee will meet at **Shire Hall, Warwick** on **10 February 2014 at 10:00am**

1. General

(1) Apologies

(2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests.

Members are required to register their disclosable pecuniary interests within 28 days of their election of appointment to the Council. A member attending a meeting where a matter arises in which s/he has a disclosable pecuniary interest must (unless s/he has a dispensation):

- Declare the interest if s/he has not already registered it
- Not participate in any discussion or vote
- Must leave the meeting room until the matter has been dealt with (Standing Order 42).
- Give written notice of any unregistered interest to the Monitoring Officer within 28 days of the meeting

Non-pecuniary interests must still be declared in accordance with the new Code of Conduct. These should be declared at the commencement of the meeting.

(3) Minutes of the previous meeting and matters arising

2. Scheme Membership

3. Share Voting Policy

4. The 2013 Actuarial Valuation

5. 2013/14 Business Plan

EXEMPT ITEMS

6. **Reports Containing Confidential or Exempt Information**

To consider passing 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'.

7. **(Exempt) Pooling and Risk Sharing (Commissioning Services)**

8. **(Exempt) Minutes of the meeting held on 11 November 2013**

9. **Equity Managers (Presentation by Analytics)**

10. **Any other items**

Which the Chair decides are urgent.

JIM GRAHAM
Chief Executive
Shire Hall
Warwick

Membership of the Pension Fund in Investment Sub-Committee

Councillors John Appleton, Sara Doughty, Bill Gifford, John Horner, and Brian Moss

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Minutes of the Pension Fund Investment Sub-Committee meeting held on 11 November 2013

Present:

Members

Councillors John Appleton, Bill Gifford, John Horner, and Brian Moss

Officers

Sally Baxter, Democratic Services Officer

John Betts, Head of Service, Finance

Neil Buxton, Pensions Services Manager

Mathew Dawson, Treasury and Pension Fund Manager

John Galbraith, Senior Solicitor, Employment Team

Andrew Lovegrove, Head of Corporate Financial Services

Vicki Forrester, Principal Accountant

Invitees

Peter Jones, Independent Investment Advisor

Paul Potter, Investment Advisor, Hymans Robertson

Richard Warden, Actuary, Hymans Robertson

1. General

(1) Apologies

Apologies were received from Councillors Sara Doughty and Peter Morson.

(2) Disclosures

Councillor John Appleton declared a non-pecuniary interest as a member of the Local Government Pension Scheme.

(3) Minutes of the previous meeting

The minutes of the meeting held on 29 July 2013 were agreed as a true record.

2. Investment Performance

2.1 Mathew Dawson, Treasury and Pensions Group Manager, presented the report and informed members that the fund's value was £1,403.6M at 30 September 2013, an increase of 2.9% on the previous quarter.

2.2 The performance of the Fund Asset Allocation Private Equity was reported to be closer to 1% than the 5% benchmark. Work would be undertaken in partnership with Hymans Robertson in early 2014 to identify funds for investment.

2.3 In response to a question from Councillor John Appleton (Chairman), Mathew Dawson explained that due to the long term nature of investment, it was difficult to assess performance with regards to cash allocation.

2.4 Performance by Fund Manager was reported to be strong, with all Fund Manger's outperforming the cash base benchmark.

2.4 Peter Jones noted that performance across all managers was very encouraging with all different elements working well.

2.5 Resolved

1. That the Pension Fund Investment Sub-Committee noted the fund value and investment performance for the second quarter in 2013/14 to 30 September 2013.

3. Warwickshire County Council Pension Fund Admissions and Termination Policy

- 3.1 Neil Buxton, Pensions Manager, explained to the Committee the key points of the Warwickshire County Council Pension Fund Admissions and Termination Policy in particular, cessation payments that would be paid should a Fund employer decide to withdraw from the pension scheme.
- 3.2 The Committee was advised that a review of the policy should be undertaken to ensure that in the event of the closure of a fund employer, a robust method and calculation of any cessation payment, if appropriate, could be formulated.
- 3.3 It was acknowledged that in light of the announcement from the Secretary of State for Education regarding the willingness of the Government to act as Guarantor in the event an Academy should close, it was pertinent to look at the Policy and make provision for the event that this should fail. It was suggested that two pools of funds be established, one especially for Education to minimise the impact on other policy holders.
- 3.4 In response to questions from the Committee, Neil Buxton explained the possible effect it would have on the Council if an Academy should fail. He clarified that pooling funds was in accordance with Government guidance and the Pension Fund Investment Sub Committee would review the approach in future.
- 3.5 A detailed discussion ensued about the proposed draft policy for employers leaving the fund and the importance of due diligence. Richard Warden, Hymans Robertson, highlighted the importance of reviewing the policy now to incorporate new guidance.

3.6.1 Resolved

1. That the Committee approve the amendments to the Admissions and Termination at Appendix b.

4. Auto Enrolment

- 4.1 Neil Buxton, Pensions Manager, explained that in response to Government legislation, Warwickshire County Council's Local Government Pension Scheme (LGPS) would operate a Staging Date for employees that were eligible for membership of the LGPS but not members of the pension Scheme. Automatic enrolment would take place under the provisions of Automatic Enrolment.
- 4.2 The Staging Date was 1 May 2013 and enrolled employees had a time frame of three months to opt out of the pension scheme. It was believed that of the 1108 employees auto enrolled by the County Council, 729 employees had opted to stay in the pension scheme. This was a reported increase of 600 contributing members from 31 July 2013 to 31 July 2012.

4.3 Resolved

1. The Pension Fund Investment Sub Committee noted the impact of membership numbers.

5. Stratford Civic Centre

5.1 Neil Buxton, Pensions Manager, asked the Committee to consider the application by Stratford Civic Centre for admitted body status with the Warwickshire Pension Fund. Four employees and members of the Local government Scheme were scheduled to transfer to a new employer, sponsored by the Town Trust, from 1 January 2014

5.2 Although the application did not satisfy the current policy of at least 10 members for admission to the Pension Fund, the sub Committee had in the past made exceptions so as to protect membership rights of current members. In light of this, the Actuary had been consulted and had calculated a contribution rate of 22.4% for the Civic Centre and a Bond surety of £62,000 in the event of a foreclosure. In addition, the Town Trust would be required to act as a guarantor in case there are any unfunded liabilities on foreclosure.

5.3 John Galbraith, Senior Solicitor, and Andrew Lovegrove, Head of Corporate Financial Services, clarified that it was Stratford Town Trust that would be required to act as guarantor and that they were in a healthy position with regards to assets.

5.6 Resolved

1. That the Pension Fund Investment Sub-Committee approve the application made by Stratford Civic Centre for admitted body status with the Warwickshire Pension Fund.

6. Review of Pension Fund Risk Management

6.1 Mathew Dawson, Treasury and Pensions Group Manager, presented the Register of Risks and control mechanisms in place for those identified. He discussed the risk management process which included the objectives of the Pension Fund as set in the business plan. The risks of achieving the objectives are then identified and the likelihood and impact if they were to occur are evaluated.

6.2 The Committee considered the key risks and controls contained in Appendix A, in particular, key risks and controls that were summarised as an investment risk. The following risks were identified:

- Fund assets failing to deliver returns over the long term in line with the expected returns underpinning the actuarial variation and funding strategy.
- Contribution requirements from employers.
- High levels of inflation in the future are not matched by asset returns.
- Fund faces short term liquidity problems and is unable to meet benefit outgoings.
- Pensioners living longer.
- Falling active payrolls leading to underpayment of deficit recovery amounts.

6.3 Councillor John Appleton (Chair) suggested that further in depth investigation needs to be undertaken including demographics of scheme members with regards to

pensioners living longer to mitigate against the risk. In addition to this, the Committee requested graphical information to help explain the risk associated with falling active payrolls.

6.4 Paul Potter, Investment Advisor, Hymans Robertson, explained the nature and importance of identifying and evaluating investment risk.

6.5 Resolved

- 1) That the Pension Fund Investment Sub Committee approve the Register of Risks.
- 2) That the Pension Fund Investment Sub Committee approve the process by which the Register of Risks has been compiled.

7. Exempt Items – Reports containing Confidential or Exempt Information

7.1 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.

8. Exempt Minutes of the meeting of the Pension Fund Investment Board – 29 July 2013

8.1 The Pension Fund Investment Sub-Committee agreed the exempt minutes of the meeting held on 29 July 2013 as a true and accurate record.

9. Infrastructure Options

9.1 Mathew Dawson, Treasury and Pensions Group Manager, presented the report and Paul Potter, Investment Advisor, Hymans Robertson, provided information during discussion, as per the exempt minutes.

9.2 Resolved

1. That the Pension Fund Investment Sub-Committee commission Hymans Robertson to undertake initial work around infrastructure fund of funds manager selection.
2. Request that fund managers attend the next meeting of the Sub-Committee to present further information.

10. Actuarial Valuation 2013 – Verbal update

10.1 Richard Warden, Fund Actuary, Hymans Robertson, presented and discussed the report as per the exempt minutes,

10.2 Resolved

1. That the Pension Fund Investment Sub-Committee note the Actuarial Valuation 2013 update

11. Any other items

Members were reminded that the Annual General Meeting would be held on 28 November 2013 at Shire Hall in Committee Room 2, from 9.15 a.m. Members were invited to attend the event and informed that it was aimed at employers thus was not a forum for decision making.

The Board rose at 11.40am

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Chair

Pension Fund Investment Sub Committee

10 February 2014

Scheme Membership

Recommendation

1. That the committee note the report.

1.0 Introduction

- 1.1 Warwickshire County Council as an employer, auto enrolled eligible employees to the LGPS at its Staging Date of 1 May 2013. Employees who were brought into the LGPS on this date then had three months to decide whether to remain a member of the LGPS or to opt out.

2.0 Findings

- 2.1 Figures supplied by the HR Service Centre, confirmed that of the 1108 employees auto enrolled by the County Council, 729 employees remained members of the LGPS.
- 2.2 Treasury and Pensions has requested from employers details of their Staging Dates and received replies confirming that a further seven employers auto enrolled their employees. Replies were received from; Warwickshire College, The Griffin Multiple Academy Trust, North Warwickshire and Hinckley College, Rugby BC, Warwick Schools Federation, Stratford on Avon DC and North Warwickshire BC. There may be further employers who have passed their Staging Date and not replied.
- 2.3 **Appendix A** shows month by month analysis (from August 2013) of active membership numbers for the Fund as a whole.

	Name	Contact Information
Report Author	Mathew Dawson, Treasury and Pension Fund Manager	01926 412227 mathewdawson@warwickshire.gov.uk
Head of Service	John Betts, Head of Finance	01926 412441 johnbetts@warwickshire.gov.uk
Strategic Director	David Carter, Strategic Director	01926 412564 davidcarter@warwickshire.gov.uk

Appendix A

Total Warwickshire Scheme					
STATUS	31/08/2013	30/09/2013	31/10/2013	30/11/2013	31/12/2013
Active Member	15791	16299	16295	16518	16396
Undecided Leaver	619	624	698	723	733
Exit - no liability	9365	9381	9393	9399	9400
Deferred	13675	13785	13833	13841	13850
Pensioner	8450	9505	9520	9550	9565
Widow/Dependant	1417	1436	1425	1428	1431
Death	5572	5591	5614	5631	5649
Frozen Refund	2101	2100	2100	2100	2101
Opted out	1218	1337	1401	1440	1535
Total	59208	60058	60279	60630	60660

Pension Fund Investment Sub-Committee

10 February 2014

Share Voting

1 Introduction

- 1.1 At the meeting of 4 August 2008 it was decided that the Pension Fund approve a policy in respect of shareholder activism and the implementation of a proxy voting system to vote on the Fund's shares. Since this time the funds officers have used this voting system and approved policy to vote on the shares held in our segregated mandates held with Threadneedle Investments (UK equities) and MFS Investment Management (Global equities).
- 1.2 Our provider for the proxy voting system, Manifest, drafted the best practice governance and voting policy that used recommendations from the Higgs and Smith Reports. There have been subsequent regulatory developments and governance, therefore the original policy needs to be revised to reflect these changes.

2 Changes to the Voting Policy

- 2.1 The policy has been redrafted to include the new regulations around director's remuneration and quality of company narrative reporting. Further amendments have been made to the policy to ensure compliance with the UK Governance Code. Also, the Pension Fund signed the Stewardship Code in 2013 which encompasses principles that should also be reflected in the policy.

3 The Proposed Voting Policy

- 3.1 Officers have engaged with Manifest and drawn up a revised share voting policy for the sub-committee approval. The draft voting policy will be presented at the meeting.

4 Recommendation

- 4.1 The sub-committee is asked to review and approve the revised policy.

	Name	Contact Information
Report Author	Mathew Dawson, Treasury and Pension Fund Manager	01926 412227 Mathewdawson@warwickshire.gov.uk
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Strategic Director	David Carter, Strategic Director	01926 412564 davidcarter@warwickshire.gov.uk

Pension Fund Investment Sub-Committee

10 February 2014

The 2013 Actuarial Valuation

Recommendation

(1) That the Sub-Committee note the results

1 Introduction

1.1 The Warwickshire County Council Pension Fund has a funding objective:

“To achieve and then maintain a funding target that requires assets equal to 100% of the present value of benefits based on completed service including provision for the effects of future salary growth and inflation up to retirement.”

1.2 In order to achieve this objective, it is necessary to assess the fund's financial position on a periodic basis and implement future contribution rates with a view to achieving the desired status of 100% funding. LGPS pension funds are actuarially valued on a triennial basis and the fund's actuary, Hymans Robertson, has just completed the fund's valuation as at 31 March 2013.

1.3 This report sets out the initial summary outcome of the valuation.

1.4 The final edition of the actuary's report will be included in the May 2014 Sub Committee meeting.

2 Valuation Results

Deficit and Funding Level

2.1 At 31 March 2013, the fund has a funding level of 77%, i.e., the Fund's assets of the fund are adequate to meet 77% of the future liabilities.

Common Contribution Rate

2.2 The common contribution rate (rate in respect of future service only) is 19.5% of pensionable pay. This compares to 12.8% at 2010. There are various factors that have led to this increase, the largest factor

(4.2%) due to the fund's previous actuary, Mercer, using a different service rate when calculating the 2010 future service rate.

Past Service Contributions Rate

- 2.3 The past service rate based on a 20 year spread has been calculated at 9.6% (4.8% at 2010). Historically the fund has wrapped this up with the future service rate and asked the employer to pay one rate to cover both past and future service. However, it is proposed that past service is, from April 2014 recovered as a cash sum to protect the fund from falling payroll figures across its employer base.

Individual Employer Contribution Rates

- 2.5 While the fund is managed as a whole, it is effectively a number of sub-funds for each employer. This means that each employer contributes according to a contribution rate that specifically reflects the individual employer's membership profile.
- 2.6 At the sub-committee meeting of 29 July 2013 the committee decided to adopt a stabilisation mechanism for tax raising employers. This has been taken into account when setting contribution rates payable from April 2014.
- 2.7 The recommended employer contribution rates for the period 1 April 2014 to 31 March 2017 are still being finalised and will be set out in the actuary's final report due to the May 2014 Sub-Committee meeting.

3 Future Funding Plan

- 3.1 The Pensions Fund's funding plan is set out in the Funding Strategy Statement (FSS). The FSS will be presented at the May 2014 Sub-Committee meeting.

4 Recommendation

- 4.1 That the Sub-Committee note the report.

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Report Author	Mathew Dawson, Treasury and Pension Fund Manager	01926 412227 mathewdawson@warwickshire.gov.uk
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Pension Fund Investment Sub-Committee

10 February 2014

2013/14 Business Plan

Recommendation

- (1) That the Sub-Committee approve the Warwickshire County Council Pension Fund Business Plan for 2014/15 as set out in **Appendix A**.

1. Introduction

- 1.1 Local authority pension funds are recommended by best practice principles to compile an annual business plan.
- 1.2 This report sets out the annual business plan for 2014/15.

2. Business Plan 2014/15

- 2.1 **Appendix A** sets out a draft recommended business plan for the 2014/15 financial year. The plan lists the investment and pension administration tasks, which should be carried out during 2014/15, the target date when these should be achieved, and the responsible officer.
- 2.2 This document will reconcile with the Treasury and Pensions Group's Business Plan 2014-2015 currently being compiled for the Resources Group Finance Service.

3. Recommendation

- 3.1 The Sub-Committee is asked to approve the Warwickshire County Council Pension Fund Business Plan for 2014/15 as set out in **Appendix A**.

	Name	Contact Information
Report Author	Mathew Dawson, Treasury and Pension Fund Manager	01926 412227 Mathewdawson@warwickshire.gov.uk
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**Warwickshire County Council Pension Fund
Business Plan and Actions for 2014/15**

Administration			
Objective(s)			
<ul style="list-style-type: none"> - to ensure scheme is run in accordance with the rules; agreed service standards and compliantly - to deal with and rectify any errors and complaints in a timely way 			
Action	Description	Timescale	Primary Responsibility
1	Head of Finance, Resources to receive service plan report on a quarterly basis	Ongoing with reports due end Mar, Jun, Sep and Dec	Andrew Lovegrove
2	Completion of Pension Fund Annual Report	By 30 September 2014	Mathew Dawson
3	Review of any complaints and how they have been dealt with by Director of Resources	Ongoing	Mathew Dawson/Neil Buxton
4	Further pension fund website development (in line with Group business plan)	Ongoing	Neil Buxton
5	Development of Member Self Service facility to enable scheme members to view their record and benefits.	Ongoing	Neil Buxton
6	Implementation of the new LGPS 2014 Scheme	Ongoing	Mathew Dawson/Neil Buxton
7	Support remaining employers in their auto-enrolment staging.	Ongoing	Neil Buxton

Communication

Objective(s)

- to convey the security of the Scheme
- to ensure members understand and appreciate the value of their benefits

Action	Description	Timescale	Primary Responsibility
1	Timely production of minimum one annual pensioners' newsletter	At least one per annum	Neil Buxton
2	Timely production of benefit statements	Active members 30 Sep 2014 Preserved members 31 Aug 2014 Councillors 31 May 2014	Neil Buxton
3	Review communication material in last 12 months and compare with good practice	Annually	Neil Buxton
4	Communication on a timely basis of the new LGPS scheme to Sub-committee, employer bodies and members	As information becomes available	Mathew Dawson/Neil Buxton
5	Prepare and implement Pension Fund Annual Meeting (Nov) and Employers' Forum (as and when deemed necessary)	At least one each per annum	Mathew Dawson /Neil Buxton

Actuarial/Funding

Objective(s)

- to monitor the funding level of the Scheme including formal valuation every 3 years
- to monitor contribution payments to the Scheme by the contributors
- to understand legislative changes which will impact on funding

Action	Description	Timescale	Primary Responsibility
1	Implementation of new employer rates and arrangements following the 2013 Actuarial Valuation	31 March 2014	Andrew Lovegrove/Mathew Dawson
2	Drafting and presentation of new Funding Strategy Statement	30 June 2014	Andrew Lovegrove/Mathew Dawson
3	Receive annual funding updates (ongoing and IAS19)	Ongoing	Mathew Dawson
4	Receive contribution monitoring schedule from Treasury Team and monitor	Ongoing	Mathew Dawson
5	Member training covering current issues	Ongoing	Andrew Lovegrove/Mathew Dawson

Pension Fund Investment Sub-committee Members

Objective(s)

- to train and develop all members to enable them to perform duties effectively
- to meet quarterly and to include investment advisor and independent advisors as required
- to run meetings efficiently and to ensure decisions are made clearly and effectively

Action	Description	Timescale	Primary Responsibility
1	Review decision making process to ensure decisions are made effectively	Ongoing	Pension Fund Investment Sub-committee
2	Review member training requirements and implement training plan as appropriate	Ongoing	Andrew Lovegrove/Mathew Dawson/Chairman
3	Rollout of the Knowledge and Skills Toolkit	Ongoing	Mathew Dawson
4	Ensure compliance with the forward plan and CMIS deadlines	Ongoing	Mathew Dawson
5	Review Pension Fund Investment meeting structure	Ongoing	Andrew Lovegrove/Mathew Dawson/Chairman
6	Respond to forthcoming changes in legislation	Ongoing	Andrew Lovegrove/Mathew Dawson

Financial & Risk Management

Objective(s)

- To properly record financial transactions to and from the Scheme and produce annual accounts within 6 months of year end
- Manage advisers fees against budgets
- Assess the risk associated with the management of the Scheme

Action	Description	Timescale	Primary Responsibility
1	Monitor pension fund expenses for next financial year	Ongoing	Mathew Dawson
2	Produce Draft Statement of Accounts	30 June 2014	Mathew Dawson
3	Produce Pension Fund Annual Report	30 September 2014	Mathew Dawson
4	Carry out risk assessment of scheme	Annually	Andrew Lovegrove
5	To implement a system of disaster recovery/business continuity in the event of major disaster	Ongoing	Andrew Lovegrove/Mathew Dawson

Investment

Objective(s)

- Periodically review investment strategy and benchmarks
- Monitor performance against benchmarks
- Meet with investment managers to discuss performance

Action	Description	Timescale	Primary Responsibility
1	The appointment and transition of assets to successful infrastructure fund manager following March 2014 interviews	Starting March 2014 and on-going	Mathew Dawson
2	Review of investment manager arrangements	May 2014	Mathew Dawson
3	Review asset allocation and possible further diversification in partnership with consultant and independent advisor	Ongoing	Andrew Lovegrove/Mathew Dawson
4	Discuss/meet with all active investment managers	At least annually	Mathew Dawson
5	Review SIP	May 2014	Mathew Dawson
6	Sub-committee to receive quarterly monitoring reports	Quarterly	Mathew Dawson
7	Ongoing consideration of best practice	Ongoing	Andrew Lovegrove