

Minutes of the Pension Fund Investment Sub-Committee meeting held on 21 July 2014

Present:

Members

Councillors Bill Gifford, John Appleton, John Horner and Sara Doughty.

Officers

Sally Baxter, Democratic Services Officer
John Betts, Head of Finance
Neil Buxton, Pensions Services Manager
Mathew Dawson, Treasury and Pension Fund Manager
Aneeta Dhoot, Senior Finance Officer
Vicki Forrester, Principal Accountant - Revenue
John Galbraith, Senior Solicitor, Pension Fund Services
Andrew Lovegrove, Head of Corporate Financial Services
Ben Patel-Adler, Democratic Services Officer
Sukhdev Singh, Senior Finance Officer.

Invitees

Peter Jones, Independent Investment Advisor
Paul Hewitt, Manifest
Barry Mack, Head of Governance, Hymans Robertson
Paul Potter, Investment Advisor, Hymans Robertson
Richard Warden, Hymans Robertson.

1. General

(1) Appointment of Chairman

Councillor John Appleton was appointed the Chairman of the Pension Fund Investment Sub-Committee.

(2) Appointment of Vice Chairman

Councillor John Horner was appointed the Vice Chairman of the Pension Fund Investment Sub-Committee.

(3) Apologies

Councillor Brain Moss.

(4) Disclosures

None.

(5) Minutes of the previous meeting

The minutes of the meeting held on 19 May 2014 were agreed as a true record subject to the amendment of Richard Warden who was in attendance at the meeting not Robert Bilton.

Item 4.4 – A meeting was in the process of being arranged with the Community Admission Bodies to discuss the assistance required with regard to meeting contribution rates. It was anticipated that the meeting would have been held before the next meeting of the sub-committee.

2. Changes to the Local Government Pension Scheme – Policy discretions

- 2.1 Neil Buxton, Pensions Services Manager, referred the sub-committee to the report and explained that due to the introduction of the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme Regulations (Transitional Provisions and Savings) Regulations 2013, Warwickshire County Council in its capacity as the administering and employing authority, were enabled to review discretionary policies allowed for by the regulations.
- 2.2 It was noted that some of the regulations had been retained from the previous legislation and would remain in place however, the main changes to the regulations were explained to the sub-committee and a full list was contained in Appendix A to the report. It was noted that Appendix A consisted of the regulations that the Local Government Pension Scheme (LGPS) was required to have and that each employer was to devise their own policy to include policy discretions.
- 2.3 It was explained that the cost of implementing the discretions would be explored at the next actuarial evaluation. It was considered to be more equitable that the cost be divided equally between the employer and employee. Contributions were usually set according to the pay band of the employee but going forward, it would be set nationally with the involvement of stakeholders.
- 2.4 Following questions from the sub-committee, clarification was provided on the following Transitional regulations:
- 10(9) – concurrent employment was considered as being an employee that had two jobs with employers within the LGPS.
 - 30(8) – This was discretionary and was applicable to employers that were defunct.
 - Defunct employers would retain the '85 year rule' where as the rule would be 'switched off' for other employers so as to share the risk with members of the fund.
- 2.5 During discussion the sub-committee was informed of the potential effect to the fund in particular the mechanism and considerations for employers. The impact would be minimal to the fund because each employer would carry any deficit arising from the discretions they had chosen.
- 2.6 Consideration was given to the details of 100(7) in particular, that it gives the right to transfer the value if the pension. The sub-committee agreed that further information would be provided at the next meeting.
- 2.7 It was clarified that the proposed abatement policy only applied to Warwickshire County Council policy and did not concern the fund.

2.8 Resolved

That the Pension Fund Investment Sub-Committee approves the administration policies for the Pension Fund attached at Appendix A.

3. Review of Investment Strategy

- 3.1 Mathew Dawson, Treasury and Pension Fund Manager, explained that following the High Level Strategy delivered by Hyman Robertson at the previous meeting of the Pension Fund Sub-Committee, it was highlighted that there was scope to reduce the risk within the investment strategy.
- 3.2 It was decided that no immediate action to de-risk would be taken however the sub-committee would start to consider the concept of de-risking and start to formulate a strategy. It was also agreed that there was the potential to improve the efficiency of the equity mandate structure. Appendix A contained two proposals for discussion following discussions between Hymans Robertson and officers and Appendix B provided alternative forms of methods of index tracking.
- 3.3 The proposals were in relation to the funds passive equities which invested in index funds tracking market cap weighted indices. There were no proposals to make any changes to the two active equity mandates. It was acknowledged that the DCLG was currently consulting on passive management and that guidance would be provided in due course.
- 3.4 The sub-committee considered the current position as to passive management of assets and the 3 managers in place. It was noted that the rationale was to diversify investment which would result in a decrease in UK investment to invest in global infrastructure. The currency risk in doing this was considered to be acceptable so long as the volatility was long term and that the investment in the UK stock market was not decreased to a low level.
- 3.5 The three alternative approaches to passive management were explained and evaluated;
 - Fundamental indices which invested on the basis of future expectations by investing in high growth industries at that moment.
 - Lower volatilities/minimum variance indices which was more expensive to invest and operated using a complex methodology.
 - Equally weighted indices which avoided concentration issues in theory but had practical constraints.
- 3.6 A comprehensive comparison of the three models was presented to the sub-committee which included the preferable model, fundamental index, and a comparison with the market cap index employed by the current passive managers.
- 3.7 Following questions from the sub-committee Paul Potter, Hymans Robertson and Paul Jones, Independent Advisor, explained that the fundamental index invested large shares in 'unpopular' companies and the rationale was to take a long term view therefore if adopted, investment would be weighted differently. A back testing method had been used and a graph to explain was distributed to the sub-committee which in conclusion provided evidence in theory, that it would be sensible to divert a small part of the fund from the current market valuation and into fundamental.

- 3.8 It was anticipated that the associated cost of diversification and its management, would be 0.1% and even though by comparison the models were similar, global investment in varied weightings would be achieved. An explanation of the RAFI fundamental index would be accessible for members if they wanted to know more about investment.

3.7 Resolved

That the Pension Fund Investment Sub- Committee, following discussion of the proposals based on the finding from Hyman Robertson, receive a specific proposal from Hymans Robertson, at a future meeting of the sub-committee.

4. Funding Update

- 4.1 Richard Warden, Hymans Robertson, reported that the funding level as at 31 May 2014 had increased to 82.6% from 76.7% in March 2013, the date of the last formal actuarial valuation.

- 4.2 The assets had returned a higher rate (10%) than expected (5.5%) and long term liabilities rates had improved resulting in a decrease. Employers paid a stabilised contribution rate, not the higher contribution rates based on the Whole Fund rate, to allow for long term asset returns being higher than the discount rate and allowed for gradual rises in interest rates over time.

- 4.3 The sub-committee noted the results in particular, the improvement of the funding level which was considered ahead of schedule and had been factored into the contribution rate. It was clarified that the rate had returned to that of 2003 and was considered comparable with other funds.

4.4 Resolved

That the Pension Fund Investment Sub Committee takes no action as a result of the funding update, as recommended by the actuary and, continues to regularly monitor the funding position ahead of the next valuation.

5. Rugby Borough Council Cleaning Contract

- 5.1 Neil Buxton explained that Rugby Borough Council had confirmed that a contract to Superclean Services Wothorpe Limited had been awarded and had taken effect from 3 June 2013. The fund had been approached by Superclean for an admission agreement and now that confirmation had been received, the Pension Fund's Actuary would calculate a bond and contribution rate for this employer and the funds legal advisers would draft an admission agreement.

- 5.2 One member of the Local Government Pension Scheme was affected by the letting of the contract.

5.2 Resolved

That the Pension Fund Investment Sub-Committee approves the retrospective admission of Superclean Services Wothorpe limited as an employer to the Warwickshire Pension Fund in respect of the Rugby Borough Council cleaning contract.

6. Governance

- 6.1 Barry Mack, Hymans Robertson, provided the sub-committee with an overview of The Pension Regulator's Code of Practice consultation on Governance Regulations which was introduced following the Public Service Pensions Act 2013. The consultation sought information regarding powers, delegation, local Pension Boards, Scheme Advisory Board and additional questions, with a consultation deadline of 15 August 2014 with an expectation that all governance reforms would take effect from April 2015.
- 6.2 The future LGPS governance structure was discussed with particular emphasis on the formation of the Local Pension Board (LPB) which was responsible for assisting the Scheme Manager in securing compliance with the regulations, legislation relating to governance and administration, Pensions Regulator's requirements and to ensure effective and efficient governance and administration.
- 6.3 The LPB was required to be in operation for April 2015 and this body would look at the governance of how funding and investment has been put in place not the actual details of the funding investment itself.
- 6.4 A detailed discussion ensued regarding how the LPB could be incorporated into the existing structure of governance for the LGPS and the different approaches available to the Fund. It was clarified that the membership of the LPB would reflect that of the Fund with an equal number of employers and scheme member representatives and they would form the majority. Local authority members on the LPB could not be either an employer or scheme member representative to ensure there was no conflict of interest.
- 6.5 The Sub-Committee agreed that a working group would be established to identify a model of working that fulfilled the statutory criteria and reflected authority consensus, before the consultation was concluded. The draft model would be considered at the next meeting of the Sub-Committee. John Galbraith would draft a response to the DCLG consultation.

6.6 Resolved

That the Pension Fund Investment Sub-Committee notes the report and establishes a working group including officers, to feed into the draft model for the Local Pension Board.

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 Sub Committee – 19 May 2014

8.1 The Pension Fund Investment Sub-Committee agreed the exempt minutes of the meeting held on 19 May 2014 as a true and accurate record.

9. Any other items

None.

The Sub Committee rose at 12.50pm

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Chair