Minutes of the Pension Fund Investment Sub-Committee meeting held on 19 May 2014

Present:

Members
Councillors Bill Gifford, Brian Moss, John Appleton (Chair), John Horner (Vice Chair) 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
Vicki Forrester, Principal Accountant - Revenue
John Galbraith, Senior Solicitor, Pension Fund Services
Kate Hiller, Solicitor
Andrew Lovegrove, Head of Corporate Financial Services

Invitees
Robert Bilton, Hymans Robertson
Peter Jones, Independent Investment Advisor
Paul Potter, Investment Advisor, Hymans Robertson
Paul Hewitt, Manifest

1. General

(1) Apologies

None.

(2) Disclosures

Councillor Sara Doughty declared a non-pecuniary interest in items 11 – 13 in so far she was a Member of Nuneaton and Bedworth Borough Council.

(3) Minutes of the previous meeting

The minutes of the meeting held on 10 February 2013 were agreed as a true record.

Neil Buxton informed the committee that the membership had increased and there were now 16,300 active members of the Local Government Pension Scheme.

2. Infrastructure Managers

2.1 Mathew Dawson provided an overview of the process undertaken to identify and appoint infrastructure fund managers. Following the interviews held on 20 March 2014, it was decided that the infrastructure fund would be £55m and the fund would be split to invest in a fund of funds and a single manager.

2.2 The single fund selected was the Standard Life Capital Infrastructure which would run for an initial period of 12 years managing between 6-8 assets with Warwickshire investing £20m. The fund of funds manager selected was Partners Group Global Infrastructure 2014 which would be in place for 12 years, commencing from August 2014, and would invest in primary, secondary and direct investments. Warwickshire would invest £35m into this fund and Blackrock, the funds transition manager, would be asked to manage the transfer of assets.

2.3 Further consideration regarding the asset allocation would be presented to the committee in July as part of the Hymans review of the fund's investments.

2.4 Clarification as to the distinction of the two funds was provided and it was acknowledged that the committee had agreed that a 'hybrid' between the two would be implemented.

2.5 Resolved

That the Pension Fund Investment Sub-Committee approves the current position with regard to the ongoing fund manager appointment process.

3. Funding Strategy Statement

3.1 Richard Warden, Hymans, introduced the Funding Strategy Statement (FSS) and explained that in accordance with Local Government Pension Scheme Regulations, the FSS would be published and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) would mean that a consultation with appropriate persons would be undertaken.

3.2 The FSS would provide an overview of all funding decisions made by the Fund within the valuation year. Richard Warden explained the contents of the FSS to the committee which included the funding objectives, the employer contribution rate setting and the risk and control mechanisms.

3.3 With regard to Community Admission Bodies (CAB), it was explained that the Administering Authority would be able to vary the discount rate applied to set the employers contribution rate. This aimed to protect other employers in the fund by helping the employer to achieve full funding before the agreement terminates or the last active member leaves.

3.4 It was acknowledged that by using a discount rate set equal to guilt yields which were currently repressed, it would be difficult for CAB's coming to the end of their agreements. In total, there was four CAB's that were members of the LGPS and each were treated separately.

3.5 Following a question from the committee, John Betts, Head of Finance, commented that the FSS provided a good overview of the funding process and would be invaluable when consulting employers in the fund.

3.6 It was identified that the numbers of School's converting to Academy status was increasing. Therefore the impact of deferred pensions before schools became academy status could potentially impact upon the fund due to the shared risk. This would need to be monitored.

3.7 Resolved

That the Pension Fund Investment Sub- Committee approves the Funding Strategy Statement.

4. The 2013 Actuarial Valuation

4.1 Andrew Lovegrove, Head of Corporate Financial Services, explained the final position of the 2013 Actuarial Valuation. All employers had agreed to pay the contribution rates contained in the report for the next three financial years.

4.2 It was identified that some confusion had been experienced with regard to the LGPS and Warwickshire County Council. Mechanisms such as different letter headed paper for LGPS correspondence were being considered to help employers understand the distinction between the fund and Warwickshire County Council.

4.3 Following discussions with employers, Warwickshire County Council were considering how employers could meet increased contribution rates in particular, those that were due to retire.

4.4 The committee was advised that a number of employers had indicated that they would struggle to meet the contribution rates therefore Warwickshire County Council would be providing assistance. Academies had accepted the contribution rates and were aware that they would be required to meet the rates. With regard to charitable organisations and Community Admission Bodies, it was acknowledged that a consistent approach should be taken and discussions in order to provide suitable support for community organisations should be undertaken with Heads of Service.

4.5 In response to questions from the committee it was confirmed that information and the contribution rates were published and available to view on the Warwickshire LGPS website. It was reported that the past service liability number had decreased therefore was an improvement to the fund and the liability number trend had also decreased in response to the improvement in gilt yields. Paul Potter, Hymans, explained that the expectation was that assets and gilt yields would increase and liabilities would decrease.

4.6 Resolved

That the Pension Fund Investment Sub Committee notes the 2013 Actuarial Valuation results.

5. Investment Performance

5.1 Mathew Dawson, Treasury and Pension Fund Manager, provided an overview of the fund value and investment performance for the fourth quarter in 2013/14 to 31 March 2014.

5.2 He reported that the fund value had increased by 1.2% on the previous quarter and was valued as £1,477.6m at 31 March 2014. Information regarding the fund asset allocation including allocation by manager, was explained and analysis of the Fund against its asset class benchmarks was discussed.

5.3 It was reported that the Fund performance had out-performed its overall benchmark by 0.32%. Overall, Fund Managers had provided a good annual performance and Equity Managers had increased their performance, against benchmarks, with value added per quarter since December 2010 – March 2014.

5.4 It was noted that the investments had performed well and this had been achieved by active targeting.

5.5 Resolved

That the Pension Fund Investment Sub-Committee notes the fund value and investment performance for the fourth quarter in 2013/14 to March 2014.

6. Review of Investment Strategy

6.1 Paul Potter, Hymans Robertson, introduced the review of the investment strategy and distributed copies of the presentation to the committee. Asset Liability Modelling (ALM) approach was used to review the high level investment strategy which involved considering the chances of the Fund achieving its long term objectives in conjunction with the associated risks.

6.2 In reviewing the high level investment strategy, the estimated liabilities of the Fund extracted from the latest actuarial valuation and projected forward to consider what the Fund's assets and liabilities could look like, under various different scenarios. 5,000 simulations were tested which include a number of assumptions for the different asset classes, such as different levels of future inflation or deflation, interest rates and increase of salaries which would affect the contribution rates. This provides the basis that is considered when trying to ascertain the likelihood of different future funding levels and contributions.

6.3 A number of key assumptions were applied to the Fund's which the committee required clarification. It was clarified that local authorities may be losing personnel but they may transfer to another employer within the Fund therefore would potentially remain in the LGPS therefore this had been applied as an assumption. Gilt yields had been assumed to increase to more 'normal' levels which implied higher funding levels over the next 20 years.

6.4 With regard to cash flow and access to income, it was explained that there was sufficient funds to meet demand between now and 2025 but this was only the case if new entrants to the Fund were admitted. The disposable of assets should be considered if no new entrants were admitted.

6.5 The contribution strategy was in place and would assist the funding objective within the 19 years' time frame. The contribution rates had increased and agreement across the fund would provide stabilisation. New entrants would have the opportunity to look at the strategy therefore they would be required to be in agreement before entering into the Fund.

6.6 The current target asset allocation was discussed and the modelling of alternative investment strategies and the range of outcomes of the five models on the projection of funding levels at 2033. In conclusion, by increasing growth with the current contribution strategy, more risk was associated with the projection of funding levels for 2033. The probability of the Fund achieving its target at 2033 and assuming a fixed contribution rate decreased if 65% and above growth was used.

6.7 It was advised that the current investment strategy and current contribution strategy would give the Fund a good chance of reaching its target. Peter Jones, Independent Investment Advisor, suggested that by de-risking the Fund at 77% would have implications on the gilt yield because the analysis was based on the assumption that gilt yields would increase to ‘normal’ levels over a 20 year period. The advice would be provided to other authorities and this could lead to a ‘ceiling’ effect on gilt yields.

6.8 Other types of investments was discussed by the committee such as Infrastructure investment, to stabilise the Fund.

6.8 If the fund was to consider a strategy incorporating de-risking the Fund, consideration would need to be given to employers in the Fund that have lower levels of funding. Further analysis would be provided at the next meeting of the Pension Fund Investment Sub-Committee scheduled for July. The Chair advised the committee to consider potential issues with the strategy, in preparation for the next meeting.

6.9 Resolved

That the Pension Fund Investment Sub-Committee notes the strategic asset allocation of the fund based on the findings from Hymans Robertson and will receive more information at the next scheduled meeting of the committee.

7. Share Voting Policy

7.1 Paul Hewitt, Manifest, explained that since the implementation of the proxy voting system, provided by Manifest, additional regulatory and governance arrangements had been implemented therefore the policy would require updating to reflect these changes.

7.2 The policy was divided into seven principles;

- Shareholder rights and responsibilities,
- The Board of Directors,
- Shareholders’ Capital,
- Audit and Accountability,
- Director Remuneration,
- Sustainability Reporting ; and
- Detailed Voting Procedures.

7.3 The new guidelines were relevant mainly to Shareholder rights and responsibilities in so far the policy allows for analysis of best practice and compliance. A specific policy vote regarding Director Remuneration allowed for greater transparency and accuracy when voting and greater detail of the remuneration arrangements.

7.4 Paul Hewitt explained that the share plan of 10% was over any rolling ten year period thus on average, the percentage was not that high. Employees would receive payment in the form of shares to align with shareholders. It was important to note that all means of obtaining shares was subject to shareholder approval.

7.5 Sustainability reporting in particular within a company was important to analyse management arrangements. Companies were encouraged to explain their approach to sustainability in the widest possible sense and explain how their policies align with long-term corporate strategy. This would include risk reporting and would also be incorporated into accounting. The committee noted that that there was now an expectation that that companies would take an active interest in civil society.

7.6 With regard to political donations, the committee suggested that the policy should state that political donations were not supported. However, it was explained that this was a general rule and was in place to cover all legal definitions.

7.7 The recommendation before committee was considered to be in line with the long-term objectives of the fund and the voting policy's general principles would work alongside these objectives and allow for flexibility.

7.8 The committee requested that a progress report on Share Voting be provided at a future meeting. It was clarified that the policy was in the public domain.

7.9 Manifest was asked to provide timely reports. It was acknowledged that the Share Voting Policy report had been deferred from a previous meeting of the committee because it was not made available in time for consideration.

7.10 Resolved

That the Pension Fund Investment sub-Committee approves the revised Share Voting Policy.

8. Directions Order/ Fair Deal

8.1 Neil Buxton, Pension Services Manager, explained that the Fair Deal Policy confirmed that staff employed by academies, police authorities and colleges of further education, would retain access to the Local Government Pension Service (LGPS) if their service was outsourced to a private contractor. It was noted that the provisions within the Directions Order had not changed.

8.2 The Directions Order, where applicable, provides that transferred staff should be provided with access to the LGPS (via an admission agreement) or access to a broadly comparable pension scheme, determined by the Government Actuary's Department or by the Fund's Actuary.

8.2 Resolved

i) That the Pension Fund Investment Sub-Committee notes that support staff at academies, the Police Authority (crime commission) and Colleges of Further Education, are now protected with regard to LGPS membership if their service is outsourced to a private contractor and;

ii) That the Pension Fund Investment Sub-Committee agrees to the admission of contractors to the Warwickshire County Council Pension Fund where support staff in the categories mentioned above, are transferred to an alternative provider and that the Strategic Director of Resources and the Head of Finance are satisfied that the appropriate guarantees for the admission of the contractor are in place.

9. Exempt Items – Reports containing Confidential or Exempt Information

9.1 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.

10. Exempt Minutes of the meeting of the Pension Fund Investment Sub Committee – 10 February 2014

10.1 The Pension Fund Investment Sub-Committee agreed the exempt minutes of the meeting held on 10 February 2014 as a true and accurate record.

11. (Exempt) Nuneaton and Bedworth Borough Council Leisure Services (1)

11.1 Andrew Lovegrove, Head of Financial Services, presented the report and advice was provided by John Galbraith, Senior Solicitor, and Kate Hiller, Solicitor, as per the exempt minutes.

12. (Exempt) Nuneaton and Bedworth Borough Council Leisure Services (2)

12.1 Andrew Lovegrove, Head of Financial Services, presented the report. Consideration was given to the report, as per the exempt minutes.

13. (Exempt) Nuneaton and Bedworth Leisure Services (3)

13.1 Andrew Lovegrove, Head of Financial Services, presented the report. Consideration was given to the report, as per the exempt minutes.

14. (Exempt) Warwickshire County Council Children's Centres

14.1 Neil Buxton, Pension Services Manager, presented the report. Consideration was given to the report, as per the exempt minutes.

15. Any other items

None.

The Sub Committee rose at 12.35pm

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Chair