

Minutes of the Pension Fund Investment Sub-Committee meeting held on 16 February 2015

Present:

Members

Councillors John Appleton (Chair), Sara Doughty, John Horner (Vice Chair) and Matt Western (replacing Brian Moss for this meeting).

Officers

Sally Baxter, Democratic Services Officer
John Betts, Head of Finance
Sanwinder Chandla, Principal Accountant
Mathew Dawson, Treasury and Pension Fund Manager
John Galbraith, Senior Solicitor, Pension Fund Services
Andrew Lovegrove, Head of Corporate Financial Services

Invitees

Robert Bilton, Hymans Robertson LLP
Peter Jones, Independent Investment Adviser
Victoria Higley, MFS Global Equity
David Holding, MFS Global Equity

1 member of the public attended.

1. General

(1) Apologies

Councillor Brian Moss and Neil Buxton

(2) Disclosures

- i) Councillor Sara Doughty declared a non-pecuniary interest in relation to Item 10 contained in the exempt minutes of 17 November 2014 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 17 November 2014 were agreed as a true record.

2. Fund Suspense Bank Account

- 2.1 Andrew Lovegrove, Head of Corporate Financial Services introduced the report and gave a précis of the rationale for the establishment of a separate Fund Suspense bank account. It was acknowledged that HM Revenues & Customs would penalise authorities that did not have one in place. It was also agreed that a separate bank

account would be more suitable than using the Pension Fund account which was the approach being taken by some authorities.

- 2.2 The Sub-committee agreed that the creation of a separate account was a logical step and would lead to better practice.
- 2.3 John Galbraith, Solicitor, provided further background explanation and context as to why on some occasions, cases cannot be resolved within the 2 year time restriction.

2.3 Resolved

That the Pension Fund Investment Sub-Committee agreed that a separate Fund Suspense bank account be created for the Pension Fund.

3. HEAT Valuation

- 3.1 Robert Bilton, Hymans Robertson LLP, provided the sub-committee with a comparison and contrast with the 'analysis of surplus' (AOS) existing model of fund valuation and the proposed Hymans Robertson Employer Asset Tracker (HEAT).
- 3.2 The current model was considered to be limited and unsatisfactory in light of the changing nature of the membership of the Fund and other characteristics. It would be more suitable and accurate to use a HEAT based model which would involve the sub-division of the fund's assets into units. The units could then be more accurately tracked for each individual employer.
- 3.3 Whilst the sub-committee agreed that the unitisation approach was a better model in terms of accuracy, they commented that no information had been provided as to the limitations of the approach. Furthermore, information as to other providers who were using other models for fund valuation and their approaches had not been considered. Peter Jones, Independent Adviser, agreed that the HEAT model would provide a mechanism for the calculation of assets but echoed the concerns of the sub-committee.
- 3.4 The sub-committee received clarification on a number of points contained within Appendix A to the report in so far how the assets and liabilities are allocated to each employer by using the information on membership as of April 2013 and then track the data on a monthly basis. It was reported that this would lead to better transparency. An ongoing licence fee would be payable if the HEAT model was adopted.
- 3.5 Members noted that the information would only be more accurate if the baseline data was correct at the time it was identified. It was reported that the model had been in operation for 12 months with approximately five other Funds using the model and discussions were being held with others. To date, there had been no reported problems.
- 3.6 A discussion ensued regarding the cost implication of adopting the HEAT model. It was noted that the current contract with Hymans Robertson ended in approximately 12 months and if following the tender process another Actuary was appointed, the possibility of the tender process being affected by reducing the numbers of other providers that could provide a similar system or one that is compatible with HEAT. It was confirmed that HEAT could be used alongside other providers' models.

3.7 Whilst it was understood that the fees associated with the HEAT model were more than the AOS model, the amount of work associated with the approach would reduce thus the cost would be offset at other stages of the Funds valuation. Furthermore, it would also negate the need for additional work when employers request a mid-term valuation therefore decreasing costs because additional work would not need to be undertaken to provide this information.

3.8 Whilst the sub-committee agreed that the HEAT model was a better approach and had many benefits, it required more information about different approaches and their associated costs to fund valuations including alternative providers. In light of this, a decision to the recommendation would be deferred to allow officers time to compile the required information.

3.5 Resolved

- i) That the Pension Fund Investment Sub- Committee notes the revised methodology for future fund valuation detailed in Appendix A and;
- ii) Receives further information about other methodologies to include effectiveness and cost implications.

4. MFS Investment Management

4.1 Victoria Higley and David Holding of MFS Global Equity, provided the sub-committee with information including the mandate and strategy overview, investment overview, attribution and portfolio positioning. The Executive summary highlighted performance issues with the early part of 2014 (3.5% deviation from benchmark) yet the longer term investment remained strong. It was noted that MFS had outperformed 8 out of 10 years.

4.2 The sub-committee noted the GBP Market overview and performance drivers. Following discussion and questions it was noted:

- The importance of considering risk and long term perspective when identifying potential stocks for investment.
- Challenges to a certain business area ie. Technology and the ability of the proposed stock company to support it, was taken into consideration when assessing investment.

4.3 The top 10 holdings had remained stable and purchases and sales had performed as expected. With regard to portfolio positioning, sorted into sector position, utilities and telecommunications, energy and mining and financial companies, were underweight areas.

4.4 Clarification was provided with regard to stock balancing. It was noted that company balance sheets were especially important and should be considered when a market is dropping.

4.5 The Chairman thanked Victoria and David for attending the meeting.

5. 5. Exempt Items – Reports containing Confidential or Exempt Information

5.1 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.

6. (EXEMPT) Minutes of the meeting held on 17 November 2014

6.1 The exempt minutes of the meeting held on 17 November 2014 were agreed as a true record. Updates were provided on issues raised and discussed as recorded in the exempt minutes to this meeting.

7. Any other items

7.1 John Betts, Head of Finance, provided an update regarding establishment of the Local Pension Board. Following changes to Government issued guidelines, the proposed terms of reference and composition of the Board, had been amended to reflect the changes and were considered at the meeting of Council on 5 February 2015.

7.2 Following amendments, the Independent person of the Local Pension Board could still chair the Board however they did not have voting rights. Changes had also been made with regard to Elected Members in so far, they could not be the Independent Representative but they could be the Employer or Scheme Member Representative.

7.3 Next steps would include writing to the District and Borough Councils within Warwickshire for information, identify an Elected Member to represent Warwickshire County Council as an employer and the recruitment of an Independent Person will include advertisement on the Pension Fund website and noting interest from individuals. Consideration had been given to establishing a Recruitment Panel which could include a member of the Pension Fund Investment Sub-Committee.

7.4 The sub-committee noted the update.

The sub- committee rose at 12 p.m

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Chair