

Minutes of the Pension Fund Investment Sub-Committee meeting held on 15 June 2015

Present:

Members

Councillors John Appleton (Chair), Bill Gifford (Vice Chair), John Horner, Alan Webb and Mary Webb (replacing Brian Moss for this meeting).

Officers

Sally Baxter, Democratic Services Officer
John Betts, Head of Finance
John Galbraith, Senior Solicitor, Pension Fund Services
Andrew Lovegrove, Head of Corporate Financial Services

Invitees

Hugh Braddock, Relationship Manager, BNY Mellon (London)
Steve Beale, Relationship Manager, BNY Mellon (London)
Peter Jones, Independent Investment Adviser
Paul Potter, Hymans Robertson

2 members of the public attended.

1. General

(1) Apologies

Councillor Brian Moss, Neil Buxton and Mathew Dawson.

(2) Disclosures

None.

(3) Minutes of the previous meeting

The minutes of the meeting held on 16 February 2015 were agreed as a true record subject to the correction that Councillor Bill Gifford was in attendance at the meeting. Minutes of the County Council meeting held on 19 May 2015 were agreed as a true and correct record.

2. Global Custodian - FCA fine

- 2.1 The Chairman reminded the sub-committee that the Fund's global custodian, BNY Mellon, had been fined by the Financial Conduct Authority for using practices that were not in compliance with the Client Asset Handbook, for a period of time. In light of this, BNY Mellon was in attendance to explain why they had been fined and what action had been taken and what mechanisms are now in place to ensure that they comply with best practice. Information was distributed at the meeting.
- 2.2 Mr Braddock assured the sub-committee that the fund's assets were, and remain safe. The FCA found that practices were not in place to allow for the linking of assets

with the relevant client's contract which could be problematic in recovering assets (in the unlikely event of a liquidation).

2.3 Resolved

That the Pension Fund Investment Sub-Committee notes the information provided and await an update from officers as to whether the contract with BNY Mellon includes explicit use of omnibus accounts.

3. Outcome of Transition – Fundamental Index Tracking

3.1 Andrew Lovegrove, Head of Corporate Financial Services, provided an update to the sub-committee regarding its decision to move assets from State Street passive UK equity to Legal and General fundamental index tracking product FTSE RAFI 3000 Eq.

3.2 The transfer had taken longer than anticipated but had been completed. Paul Potter, Hymans Robertson, commented that the process for tracking index would be more accurate in future. Furthermore, the cost associated with the transfer was for the fundamental index mandate and if Black Rock had been employed, the transfer would have attracted a fixed fee. He also clarified that the fee was to cover the cost of moving the asset from the UK market to global market but it was anticipated that the cost would be offset by investments into the fund.

3.3 In response to a question, Paul Potter explained that the stock would not have been detrimentally affected during the transfer period because market exposure was maintained whilst it was being restructured into the New World Equity Fund.

3.4 Resolved

That the Pension Fund Investment Sub - Committee notes the report.

4. Investment Performance

4.1 Andrew Lovegrove, Head of Corporate Financial Services, gave a precis of the investment performance report for the fourth quarter in 2014/15. In particular, the sub-committee noted that there had been a 5% increase on the fourth quarter valued at £1.6 billion.

4.2 Paul Potter, Hymans Robertson, highlighted that the investment had globally outperformed by 3.5%. Peter Jones, Independent Investment Adviser, and the sub-committee agreed that performance had been good.

4.3 Resolved

That the Pension Fund Investment Sub-committee notes the fund value and investment performance for the fourth quarter in 2014/15 to 31 March 2015.

5. Audit Plan 2014/15

- 5.1 John Betts, Head of Finance, explained that the Audit Plan would be considered by the Local Pension Board and not the sub-committee in future but would still be considered by the Staff and Pensions Committee. He introduced the report and plan, and advised that no concerns had been raised.
- 5.2 Following a discussion, the sub-committee highlighted the importance of ensuring the responsibilities of the Local Pension Board and Pension Fund Investment Sub-Committee are defined. John Betts reported that the Board's term of reference would be considered at its first meeting in July and the sub-committee would receive the agreed terms of reference for information.

5.3 Resolved

That the Pension Fund Investment Sub-Committee notes the report and will receive the agreed Terms of Reference of the Local Pension Board at a future meeting.

6. Business Plan 2015/16

- 6.1 The Chairman explained that hard copies of the Business Plan 2015/16 were distributed to the sub-committee this morning; a link to access the plan had been emailed to all Councillors on 10 June 2015.
- 6.2 The sub-committee discussed the importance of responsibilities and that there is a clear distinction between the role of the Local Pension Board and the Pension Fund Investment sub-committee. With this in mind, it was suggested that the Business Plan be revised with consideration of the different roles and then it would be considered at a future meeting.

6.3 Resolved

That the Pension Fund Investment Sub-committee agrees that the Business Plan 2015/16 be reviewed and amended to identify whether the sub-committee or Board, is responsible for each area of the Business Plan.

7. Employer Asset Tracking

- 7.1 It was explained that the appendix to the report was classified as exempt under schedule 12 A of the Local Government Act 1972 and the sub-committee would be required to pass a resolution to discuss the appendix in private session, if required.
- 7.2 The sub-committee considered a proposal on 16 February 2015 by Hymans Robertson for the Fund to adopt an 'employer asset tracking' approach to allocating cash flows and investment returns to employers in the Fund, as opposed to the current method used 'analysis of surplus'.

Exempt Items – Reports containing Confidential or Exempt Information

- 7.3 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.

7.4 The sub-committee referred to the information contained in Appendix A, in particular they discussed other models available and the fees associated.

7.5 Resolved

That the Pension Fund Investment Sub-Committee approves the adoption of an employer asset tracking model by the Fund.

8. Listed Infrastructure

8.1 Following the sub-committee decision in May 2014 to invest in with two infrastructure managers (Standard Life Capital Partners and Partners group), the value of the Fund has increased and as such, it is for the sub-committee to agree if it's appropriate to increase the amount to be invested by £5million.

8.2 A discussion ensued about the length of time taken to invest funds into infrastructure and the importance of ensuring the investment was usefully being employed. In reaching its decision the sub-committee was reminded that a rebalance of risks across the Fund was the aim.

8.3 Resolved

That the Pension Fund Investment Sub-Committee approves an increase of £5million to the existing £55million commitment to private infrastructure.

10. (EXEMPT) Minutes of the meeting held on 16 February 2015

10.1 The exempt minutes of the meeting held on 16 February 2015 were agreed as a true record.

11. Any other items

None.

The sub- committee rose at 11.25 a.m

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Chair