

**Minutes of the Pension Fund Investment Sub-Committee meeting
held on 14 December 2015**

Present:

Members

Councillors John Appleton (Chair), Bill Gifford (Vice Chair), John Holland (replacing Councillor Alan Webb for this meeting)

Officers

Sally Baxter, Democratic Services Officer
Mathew Dawson, Treasury and Pension Fund Manager
Andrew Lovegrove, Head of Corporate Financial Services
Paul Williams, Democratic Services Team Leader

Invitees

Peter Jones, Independent Investment Adviser
Paul Potter, Hymans Robertson

From HarbourVest

Carolina Espinal
Hannah Tobin

From Schroders

Lyndon Bolton
Neil Turner

No members of the public attended.

1. General

(1) Apologies

Councillor John Horner, Councillor Brian Moss, Councillor Alan Webb, John Betts

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

None.

(3) Minutes of the previous meeting

The minutes of the meeting held on 14 September 2015 were agreed as a true record to be signed by the Chair.

2. The Future of the LGPS

Andrew Lovegrove, Head of Corporate Financial Services introduced this item by summarising the key elements of the published report. The committee was reminded of the timetable set by Government for the submission of initial proposals (19 February 2016) and for agreement by Council of the final arrangements for pooling (July 2016). It was explained that a number of pooling options had been explored. Discussions have been held with the West Midlands Pension Fund and neighbouring authorities and the situation remains fluid. However on reflection the preferred option is to form a pool with Surrey, Cumbria and East Riding. In response to a question from Councillor Bill Gifford the committee was told that work on the West Midlands pool had been slow to build momentum. Officers of the County Council had attended planning meetings for the establishment of the West Midlands pool but had been disappointed by its slow rate of progress. The approach taken by the West Midlands Pension Fund and the Warwickshire Pension Fund vary in that the West Midlands Fund manages its own investments. Warwickshire commissions others to manage its fund. However until the position becomes clearer a decision has been made to continue with negotiations with the West Midlands group thus leaving options open.

Councillor Gifford observed that the report should have contained greater detail of why some of the options were considered to have less merit than others.

The committee was assured that the value of any pension fund in a Surrey/Cumbria/East Riding/Warwickshire pool would exceed the £30bn lower threshold as stipulated by Government.

Paul Potter (Hymans Robertson) explained that the pooling landscape remains very fluid with a number of pension funds considering a range of options and permutations before deciding on which approach to take. The position will become clearer in the next few weeks but it is useful at this stage to be able to express a preference for a preferred option.

Councillor John Holland emphasised that it will be important to ensure that whichever model is pursued the high quality of service delivered by Warwickshire pension staff should not be allowed to erode. Members were informed that the Government's proposals concern investment assets although there is a drive to realise cost savings where appropriate.

Concern was expressed over the Chancellor's stated desire to see greater investment by pension funds in public infrastructure projects. Members were told that historically such projects do not yield a high return. As a result they would not constitute a good investment.

Turning to the recommendation that was to be placed before the Staff and Pensions Committee (14 December 2015) the committee expressed the view that whilst support for a model based on Surrey, Cumbria and East Riding had its merits it would be important not to exclude other permutations from consideration. Paul Potter reminded members that if the Council was unable to arrive at a solution the Government may feel obliged to intervene and force a model on the County.

It was agreed that a further meeting of the Pension Fund Investment Sub Committee be held before submission of the Council's initial proposal on 19th February 2016. That meeting should be provided with a report setting out the governance arrangements for any pooling model.

Resolved

That the Pension Fund Investment Sub-Committee:

- 1) Supports the consideration of a pooling of funds with Surrey, Cumbria and East Riding but requests that the Strategic Director of Resources continues to give consideration to alternative models of pooling involving combinations of other local authorities ahead of a final decision being made by Council.
- 2) Requests that an additional meeting of the committee be held before 19 February 2016 to consider further the preferred models and that any report considered at that meeting includes a section setting out the governance arrangements for any new pool.

3. Investment Performance

Mathew Dawson (Treasury and Pension Fund Manager) summarised the published report highlighting a 2% decrease in the value of the Pension Fund by 2.2% over the previous quarter. It was noted that whilst property assets had performed well (+1.1%) equities had not (-1.4%). Regarding the cash balance as set out on table 1 it was explained that it is appropriate to hold a certain level of cash assets to meet any drawdown requirements. The cash is held by the custodian and is required to be held to meet any draw on benefits or other contingencies

Regarding the Fund Asset Allocation by Manager information in table 2 (page 3) the committee's attention was drawn to the lower than benchmark performance of Partners Group and SL Capital. Mathew Dawson stated that he will attend the Spring 2016 Partners Group meeting to be able to more fully understand the position there. He agreed to bring a report on this to a future meeting of the committee. Regarding SL Capital the committee was informed assets should be fully invested in the next 12 to 18 months.

Table 3 was highlighted as illustrating the distinction in the way property based investments had performed compared to equities. The relatively poor performance of L&G (Global Equities) was used as an example of this. In addition it was noted that MFS and Threadneedle had performed well in a weakened market.

Figures 3 and 4 on page 5 of the report indicate good performance by MFS and Treadneedle in a year when other fund managers have performed less well. Mathew Dawson suggested that this good performance justifies the fees paid by the pension fund to the fund managers.

Figure 5 on page 6 of the report illustrates the relative performance of MFS and Treadneedle. Between June 2012 and September 2015 there had been two quarters where both had fallen below the benchmark. Overall however performance had been generally good.

In conclusion Matthew Dawson informed the committee that overall investments are performing well. There has been an increase in liabilities attributable in part to the gilt yield

Resolved

That the Pension Fund Investment Sub-Committee notes the fund value and investment performance for the second quarter in 2015-16 to 30 September 2015.

4. Pooling Update

Mathew Dawson summarised the published report. He explained that having decided to pool the fund's passive assets with one single asset manager in conjunction with six other County Council pension funds a series of interviews were held in Staffordshire in early November 2015. It had been unanimously agreed to select Legal and General as investment consultant. There were two reasons that further influenced the decision from a WCC perspective. In the first instance L&G had recently been awarded the RAFI mandate and secondly the company is already the fund's re-balancing Manager.

It had been planned to undertake the pooling before the end of 2015. However Blackrock had requested a deferral for two weeks pending the rebalancing of the FTSE.

Fee levels will be lower than previously anticipated with around £6bn in the pool.

Members questioned the relationship between the pool of seven local authorities covered by this report and the pool of funds addressed in item 2. The committee was informed that the authorities discussed in this report are not aligned in the same way and would not therefore be suitable for consideration for fund pooling. The principal message resulting from the collaborative working of the local authorities is that a better deal can be obtained from fund managers when funds work together to operate on a larger scale.

Peter Jones (Independent Adviser) referring to paragraph 3.4 asked officers whether they were comfortable with Legal and General holding 40% of the fund. He suggested that this was a significant proportion to entrust to any one company. The committee was informed that as the funds are held in trust they should be secure but were Legal and General to fail this would present some challenges. In conclusion members expressed some reservation over the amount managed by Legal and General but were satisfied by assurances given.

Resolved

That the Pension Fund Investment Sub-committee approve the proposal.

5. Independent Adviser - Outcome

Mathew Dawson stated that the selection exercise for the appointment of a second adviser had been a success. The preferred new adviser is Karen Shackleton. The committee was briefed on Ms Shackleton's credentials. The selection panel had been impressed by her in-depth knowledge of the workings of the Local Government Pension Scheme and of the position with the Warwickshire Fund. Councillor Gifford particularly noted that she was the only candidate who expressly stated that she wished to work with the fund and the committee. The decision of the selection panel had been unanimous.

Resolved

That the Pension Fund Investment Sub-Committee approve the appointment of Karen Shackleton on a three-year contract.

6. Any other items

None.

There followed presentations from representatives of Harbourvest and Schroders. Reports were circulated outlining the performance of the two companies. Members of the committee sought clarification on a number of points.

The sub-committee rose at 12.05pm

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Chair