

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

Present:

Members

Councillors John Appleton (Chair), Brian Moss, Bill Gifford (Vice Chair), John Horner and Alan Webb.

Officers

Sally Baxter, Democratic Services Officer
Mathew Dawson, Treasury and Pension Fund Manager
John Galbraith, Senior Solicitor, Pension Fund Services
Andrew Lovegrove, Head of Corporate Financial Services

Invitees

Peter Jones, Independent Investment Adviser
Paul Potter, Hymans Robertson

1. General

(1) Apologies

John Betts

(2) Disclosures

None.

(3) Minutes of the previous meeting

The minutes of the meeting held on 15 June 2015 were agreed as a true and correct record.

2. Investment Performance

2.1 Following recent market events in global equity, Mathew Dawson, Treasury and Pension Fund Manager, reported that the fund level had decreased since 30 June 2015; It was now under £1.5 billion.

2.2 Comparative work would be undertaken to see the effect of then events and how this compared with other funds. Mathew Dawson explained that the larger the equity share, the more impact on the fund. Paul Potter, Hymans Robertson, reported that the equity share of the fund was relatively small therefore more protected.

2.3 It was noted that the investment level for infrastructure was nearly 1%, action had been taken to be fully prescribed. With regard to fund manager performance, the overall position was that they had out-performed the benchmarks. In particular, Blackstone had performed well during a quarter of down markets.

- 2.4 Paul Potter, Hymans Robertson provided an update on the managerial structure at Schroders Property. The sub-committee agreed that Schroders Property would be invited to attend the December meeting.
- 2.5 It was acknowledged that MFS and Threadneedle had performed well year on year and during the annualised three years. Following a discussion about performance and the influence of benchmarks, the sub-committee agreed that a report about benchmarks would be welcomed at a future meeting. Peter Jones, Independent Adviser, suggested that a presentation from Hymans Robertson who provide advice to the fund, would be advantageous; the presentation could explain how active and passive funding worked and the advantages/disadvantages of each. Instead, Mathew Dawson suggested the quarterly report produced by Analytics about performance would be helpful and he would make this available if members would like to see it.

2.6 Resolved

- i) That the Pension Fund Investment Sub-Committee note the fund value and investment performance for the first quarter in 2015/16 to 30 June 2015.
- ii) Agreed that they would receive a report about fund benchmarks.

3. Statement of Investment Principles

- 3.1 Mathew Dawson, Treasury and Pension Fund Manager, gave an overview of the Statement of Investment Principles (SIP) document and in doing so referred the sub-committee to the revised SIP at Appendix A. The document had been updated because of the changes to the fundamental index and infrastructure investment.
- 3.2 Following questions, Mathew Dawson and Paul Potter highlighted the reduction in equities to invest in infrastructure. The Chair asked that a covering report be produced for the sub-committee to highlight where changes have been made.
- 3.3 The sub-committee made several observations about investment restrictions and social, environmental and ethically responsible investment. Investment consultant fees were discussed. It was noted that there is a framework for procuring advisers.
- 3.4 Mathew Dawson referred the committee to Annex 3 had also been amended to reflect changes. He provided clarification about risk management and how it's managed for each asset class. He explained that management fees would be influenced by other factors such as a down turn in market performance.

3.5 Resolved

That the Pension Fund Investment Sub - Committee approves the Statement of Investment.

4. Infrastructure Update

- 4.1 Mathew Dawson informed the sub-committee that following the update provided at June's committee meeting, Standard Life had made two draw downs. Paul Potter, Hymans Robertson, provided further detail of the two investments and that the total

investment left cash to pay other assets. It was anticipated that by 2016, 2/3 would be allocated.

4.2 Resolved

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

5. Business Plan 2015/16

5.1 Mathew Dawson explained that following initial consideration at the last meeting of the Pension Fund Investment Sub-committee in June, the Business Plan 2015/16 had been revised to incorporate what the Warwickshire Local Pension Board (WLPB) responsibilities would be (Appendix A). Actuarial funding and Investment decisions and monitoring would remain with the sub-committee and the Board will ensure that administrative responsibilities have been fulfilled.

5.2 The Chair reminded the sub-committee that the Business Plan had not been considered by the WLPB.

5.3 Officers noted that not all responsibilities had been taken into consideration and that some activities would need to be allocated on a case by case basis. Accounts would still be considered by the Staff and Pensions Committee.

5.4 In response to questions, Andrew Lovegrove, Head of Corporate Financial Services, clarified that the WLPB would receive monitoring information about contributions; revising contributions remained the responsibility of the Pension Fund Investment Sub-committee and the Actuary Manager. Mathew Dawson clarified that the consideration of best practice was purely from an operational view.

5.5 Resolved

That the Pension Fund Investment Sub-Committee approves the revised Business Plan 2015/16.

6. Governance Compliance Statement

6.1 An overview of the statement and the range of governance issues was provided by Mathew Dawson including the change in structure (establishment of the Warwickshire Local Pension Board). The statement had been changed to reflect this change and that the board now has access to information about how decisions are taken by the sub-committee and the minutes of meetings.

6.2 The sub-committee received an explanation about information contained in the statement that was marked as 'Explain' in so far explanation has been provided to show what Warwickshire Pension Fund has in its governance structure.

6.3 Resolved

That the Pension Fund Investment Sub-committee approves the Governance Compliance Statement.

7. Cashflow Analysis

- 7.1 Mathew Dawson introduced the report including why it was being considered. He explained the difficulties of providing a forecast for a three year period in so far assumptions are made and projections are created.
- 7.2 The sub-committee considered the tables within the report which provided a comparison of actual and expected outgo and income over the last two years. In response to a question he clarified that some of the income was being held by two custodians, and £5 million was being held in a current account.
- 7.3 During further discussion, it was explained that it was expected that the number of contributions would increase despite the expected decrease in workforce. John Galbraith, Senior Solicitor, reminded the sub-committee that there wasn't a direct correlation with the size of the workforce due to out-sourcing and the number of employers paying into the fund.
- 7.4 Paul Potter, Hymans Robertson, advised the sub-committee that the cash balance maintained was adequate.

7.5 Resolved

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

8. Additional Independent Adviser

- 8.1 The sub-committee was advised that whilst an Independent Adviser provided support and advice at quarterly sub-committee meetings and an investment consultant worked alongside officers, it was officer's opinion that an additional adviser would provide improved support for members, in particular, a more 'hands on' approach.
- 8.2 Peter Jones, Independent Adviser, supported the proposal. He explained that he was an adviser and was involved with other pension schemes and he believed that the additional adviser would provide officers with support as well as members.
- 8.3 The sub-committee explored alternative options such as one full- time Independent Adviser instead of two part-time but the sub-committee agreed that they did not want to lose Peter Jones' expertise. However, it was agreed that the two advisers would need to provide complementary skills.
- 8.4 Following discussion about the recruitment process, the sub-committee agreed that officers would establish a recruitment advert and select the three most suitable applicants who would then be interviewed by officers and members of the sub-committee.

8.5 Resolved

- i) That the Pension Fund Investment Sub-Committee approves the appointment of a second Independent Adviser to work alongside the existing adviser, consultants and officers , and;
- ii) Delegate the selection of three applicants for interview by members of the sub-committee and officers.

9. Passive Investment – Collaborative Working

- 9.1 Andrew Lovegrove, Head of Corporate Finance, explained that in May 2013, a call for evidence consultation was undertaken and following analysis of the responses, a further consultation was undertaken in May 2014 which focused on the possibility of asset pooling and the increased use of passive management. It was believed that this approach would reduce investment management fees across the Local Government Pension Scheme (LGPS).
- 9.2 Discussions between officers of six administering authorities had taken place on 14 August 2015 about the joint procurement of passive investment management. It was reported that discussions were encouraging with authorities willing to proceed in a timely manner.
- 9.3 It was reported that Staffordshire, Shropshire, Worcestershire, Nottinghamshire, Cheshire and Leicestershire administering authorities had been included in discussions. It was expected that national framework would be introduced but Warwickshire wanted to demonstrate that they are already exploring options.
- 9.4 During discussion, the sub-committee noted that the pooling of resources had been raised previously. It was acknowledged that other administering authorities such as London, Wales and the Southwest had set up similar arrangements. Mathew Dawson advised that the Department for Communities and Local Government (DCLG) had indicated that the pooled fund value should not exceed £30 billion. It was anticipated that further advice would be provided soon.
- 9.5 In response to questions, Paul Potter, Hymans Robertson clarified that decisions taken at manager level were likely to be removed leaving responsibility for the recruitment and firing of fund managers. The sub-committee also discussed potential savings associated with pooling resources, liabilities, risks and potential costs. It was agreed that B – Finance, will act as the investment consultant, and will be invited to the next meeting of the Pension Fund Investment Sub-Committee. A report on expected savings will also be provided by Mathew Dawson.
- 9.6 **Resolved**
- i) That the Pension Fund Investment Sub-Committee approves the pursuing of a collaborative procurement mandate for passively managed funds with other authorities, and;
 - ii) Delegate the negotiation and decision making on this procurement to the Head of Finance and the Strategic Director for Resources, in consultation with the Chair of this sub-committee.

10. Exempt Items – Reports containing Confidential or Exempt Information

- 10.1 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.

11. Exempt minutes of the previous meeting held on 15 June 2015

- 11.1 The sub-committee agreed that the exempt minutes of the meeting held on 15 June 2015 were a true and correct record.

12. Any other items

None.

The sub- committee rose at 11.45 a.m

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Chair