

# Pension Fund Investment Sub-Committee Agenda

14 December 2015

The Pension Fund Investment Sub-Committee will meet in **CR2, Shire Hall, Warwick** on **14 December 2015** at **10 a.m.**

## 1. General

### (1) Apologies

### (2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests.

Members are required to register their disclosable pecuniary interests within 28 days of their election or appointment to the Council. A member attending a meeting where a matter arises in which s/he has a disclosable pecuniary interest must (unless s/he has a dispensation):

- Declare the interest if s/he has not already registered it
- Not participate in any discussion or vote
- Must leave the meeting room until the matter has been dealt with (Standing Order 43).
- Give written notice of any unregistered interest to the Monitoring Officer within 28 days of the meeting

Non-pecuniary interests must still be declared in accordance with the new Code of Conduct. These should be declared at the commencement of the meeting.

### (3) Minutes of the previous meeting held on 14 September 2015.

## 2. The Future of the LGPS

A report for the sub-committee to note.

## 3. Investment Performance

## 4. Pooling Update

## 5. Independent Adviser - Outcome

**6. Any other items**

Which the Chair decides are urgent.

**Presentations**

1. Schroders
2. Harbourvest Partners

JIM GRAHAM  
Chief Executive  
Shire Hall  
Warwick

**Membership of the Pension Fund Investment Sub-Committee**

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

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## **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



## **Staff and Pensions Committee**

**14 December 2015**

### **The Future of the LGPS**

#### **Recommendation**

#### **That Staff and Pensions Committee:**

**authorises the Strategic Director for Resources on behalf of the Pension Fund to submit an initial proposal to the Government's consultation, by 19 February 2016, that proposes a collaborative approach to pooling funds with Surrey, Cumbria and East Riding, subject to a further report for final decision being brought to Council before July setting out the arrangements in more detail.**

#### **1 Introduction**

- 1.1 In the July Budget 2015, the Chancellor announced the Government's intention to work with the Local Government Pension Scheme (the Scheme) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. Authorities are now invited to submit proposals for pooling which the Government will assess against set criteria (see Section 2 below). The Chancellor has announced that the pools should take the form of up to six British Wealth Funds, each with assets of at least £25bn, which are able to invest in infrastructure and drive local growth.
- 1.2 On 25 November as part of the Autumn Statement a consultation was released which set out how authorities should pool assets and the criteria that should be considered. Authorities are asked to submit their initial proposals to the Government by 19 February 2016. Submissions should include a commitment to pooling and a description of progress towards formalising their arrangements with other authorities. Authorities can choose whether to make individual or joint submissions.

#### **2. The Consultation**

- 2.1 The consultation outlined four main criteria that submissions should take into consideration:

- A. Asset pool(s) that achieve the benefits of scale: the 90 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements are expected to deliver and explain how those benefits will be realised, measured and reported.
  - B. Strong governance and decision making: the proposed governance structure for the pools should provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members.
  - C. Reduced costs and excellent value for money: in addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so are rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while at least maintaining overall investment performance.
  - D. An improved capacity to invest in infrastructure: only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class.
- 2.2 Refined and completed submissions are expected by 15 July 2016, which fully address the criteria in this document, and provide any further information that would be helpful in evaluating the proposals.
  - 2.3 The July Budget 2015 announcement set out the Government's intention to introduce "backstop" legislation to require those authorities who do not bring forward sufficiently ambitious plans to pool their investments.

### **3. Work done to date**

- 3.1 Noting that there has been limited time to undertake any detailed appraisal work, officers advising the Warwickshire Pension Fund have been open to consideration of all options either currently available or requiring construction that would ensure the Fund retains strategic management of asset allocation, but which may offer new opportunities or solutions to current initiatives, the driver being that an initial mover should be able to secure greater control than if the Fund is mandated to pool its assets nationally.

3.2 The key factors that officers have looked to address in any option to be considered are that:

- asset allocation strategy must be retained at an individual Fund level;
- any new structure should be capable of complementing a bespoke investment strategy for scheme employers with common characteristics;
- the Fund should retain a pivotal role in the governance of any pooled structure chosen;
- any partner must have a complementary investment ethos and strategy;
- any new structures should offer opportunities for savings, while retaining or improving on the Fund's current performance;
- the possibility to introduce internal management capability;
- any solution provides additional resilience and capacity over and above current governance structures;
- the structure chosen must be flexible so as to ensure assets are only transferred into any vehicle when/if it is efficient and effective to do so;
- any new structure must be scalable to ensure some level of future proofing;
- a solution will seek to provide internal shared resource to progress more proactive management of liability and cash flows.

3.3 Officers have participated in a large group data exercise administered by Hymans Robertson that will provide an analytical review and recommendations for future pooling and solutions. This has not yet provided a clear recommendation for a delivery solution.

3.4 Officers have also met representatives from West Midlands Pension Fund and neighbouring authorities to discuss regional pooling and how this could work in practice.

3.5 In addition, on 5 November it was announced that Pension Funds for East Riding, Surrey and Cumbria are in talks to launch an investment partnership, pooling £9bn in assets. Other Pension Funds with a similar profile were contacted following this press release with a view to joining this partnership in order that the required scale of £25bn can be met.

- 3.6 Officers advising the Warwickshire Pension Fund consider that the optimal solution would be a voluntary submission to Government as part of a group of other Funds sharing the objectives set out at 3.2 above.
- 3.7 Officers and section 151 officers have therefore met and held initial discussions about Warwickshire joining the East Riding, Surrey and Cumbria investment partnership outlined in 3.5 and believe that, out of the three options seemingly available to the Warwickshire Pension Fund at this time, this partnership offers the most appropriate solution as it will demonstrate:
- An understanding of the Fund's existing asset allocation particularly in the alternatives space, i.e. Private Equity and Hedge Funds.
  - The use of in-house investment where applicable
  - The sharing resources amongst Funds
  - A projection of realistic savings over the 15 year period through scale and direct manager selection
  - That Warwickshire would have a strong voice in the management and decision making of the proposed pool.
- 3.8 On November 27 the Chair of the Pension Fund Investment Sub-Committee met the Chair of Surrey's Investment Board. The outcome of this meeting was an agreement that Warwickshire respond to the Government consultation as part of the group outlined in 3.5

## **4. The Proposal**

- 4.1 The proposal will be a pooled investment partnership in an Authorised Contractual Scheme (ACS) structure which has benefits over other structures and is the preferred choice of the Government. There will be the creation of a separate management company that will be wholly owned by the partner funds of the pool. Each of these funds would have an equal holding in the ownership of this company and an equal say in the governance of the structure.
- 4.2 The structure will offer the opportunity to deliver the required savings whilst maintaining or improving on investment performance. Savings can be achieved through scale and the ability to directly invest. There will also be the possibility to use the internal investment capability of the partner funds where appropriate.
- 4.3 It is important that the structure must have suitable flexibility so that assets are only transferred to the new vehicle at the point that it becomes tax efficient and beneficial to the pool to do so.
- 4.4 The structure must also offer solutions to access infrastructure investments to meet the criteria set out by Government.

- 4.5 This proposal is only at the early planning stage and views are being sought by the founding partners.

## 5. Next Steps

- 5.1 If the Staff and Pensions Committee approves the recommendation set out above then the next steps will be as follows:

- (a) officers, in consultation with the Pension Fund Investment Sub-Committee Members, to continue to work with the representatives of the proposed East Riding, Surrey and Cumbria investment partnership to prepare and submit a draft response to the Government's consultation by the deadline of 19 February;
- (b) Members of the Pension Fund Investment Sub-Committee (and the Staff and Pensions Committee as appropriate) to scrutinise any response from Government and the emerging details of the proposed investment partnership;
- (c) advisers to the Pension Fund to consider whether any consultation obligations are triggered by the proposed new pooling arrangements and to seek authority to undertake any consultation which may be so required;
- (d) a report to be brought to Council for final approval setting out the proposed arrangements in more detail in time for the final submission to Government in July 2016.

## Background Papers

1. DCLG Local Government Pension Scheme: Investment Reform Criteria and Guidance

	<b>Name</b>	<b>Contact Information</b>
Report Author	Mathew Dawson, Treasury and Pension Fund Manager	01926 412227 <a href="mailto:mathewdawson@warwickshire.gov.uk">mathewdawson@warwickshire.gov.uk</a>
Head of Service	John Betts, Head of Finance	01926 412441 <a href="mailto:johnbetts@warwickshire.gov.uk">johnbetts@warwickshire.gov.uk</a>
Strategic Director	David Carter, Strategic Director, Resources Group	01926 412564 <a href="mailto:davidcarter@warwickshire.gov.uk">davidcarter@warwickshire.gov.uk</a>



## Pension Fund Investment Sub-Committee

14 December 2015

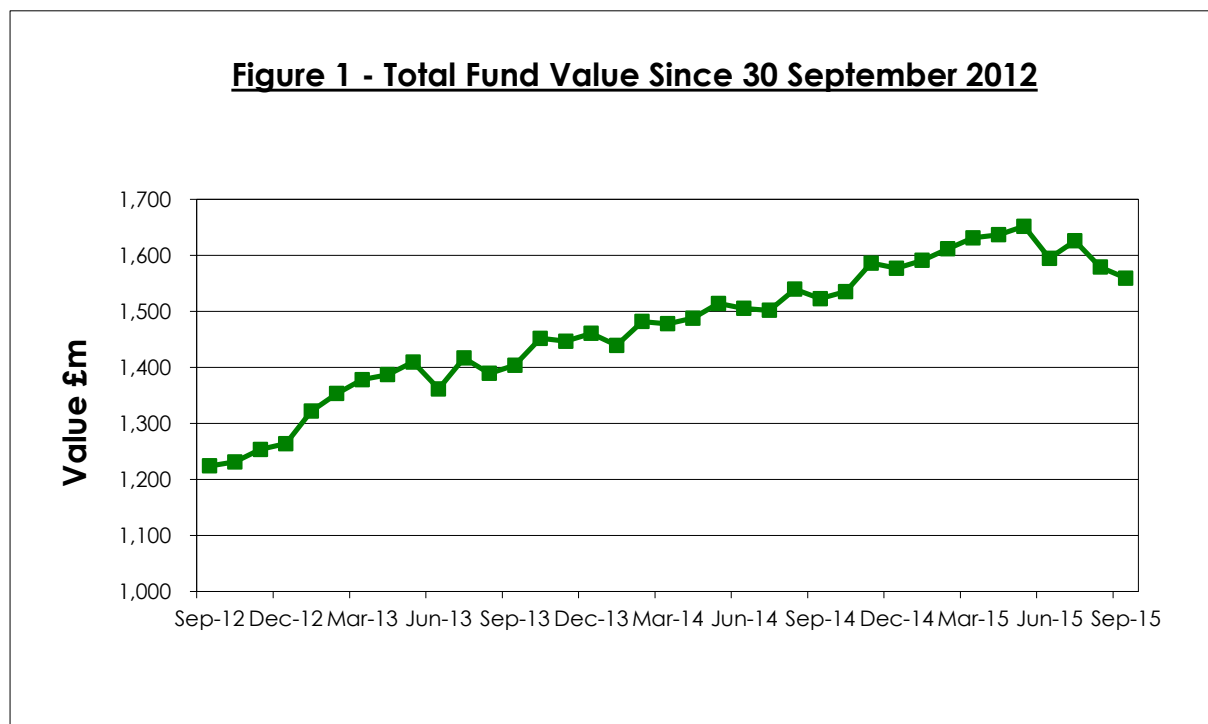
### Investment Performance

#### Recommendation

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

#### 1. Fund Value at 30 September 2015

- 1.1 The fund value was £1,559.1m at 30 September 2015 a decrease of 2.2% on the previous quarter as shown in Figure 1.



## 2. Fund Asset Allocation

2.1 The performance of the Fund against its asset class benchmarks for the quarter ending 30 September 2015 is shown in Table 1.

**Table 1: Fund Asset Allocation**

Asset Class	Q/E Sep 2015	Fund policy	Over/under weight
	%	%	%
<b>Equity</b>	<b>56.6</b>	<b>54.5</b>	<b>2.1</b>
UK	26.0	23.0	3.0
Overseas	26.2	26.5	-0.4
Fundamental Global Equity	4.4	5.0	-0.6
<b>Fixed Income</b>	<b>17.7</b>	<b>17.5</b>	<b>0.2</b>
UK corporate bonds	10.2	10.0	0.2
UK government bonds	2.5	2.5	0.0
UK index linked bonds	5.1	5.0	0.0
<b>Hedge Funds</b>	<b>5.1</b>	<b>5.0</b>	<b>0.1</b>
<b>Private Equity</b>	<b>2.6</b>	<b>4.0</b>	<b>-1.4</b>
<b>Property</b>	<b>11.1</b>	<b>10.0</b>	<b>1.1</b>
<b>Absolute Return Bonds</b>	<b>4.7</b>	<b>5.0</b>	<b>-0.3</b>
<b>Infrastructure</b>	<b>0.9</b>	<b>4.0</b>	<b>-3.1</b>
<b>Cash*</b>	<b>1.3</b>	<b>0.0</b>	<b>1.3</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

\*Cash balance levels to cover drawdowns from 3 managers.

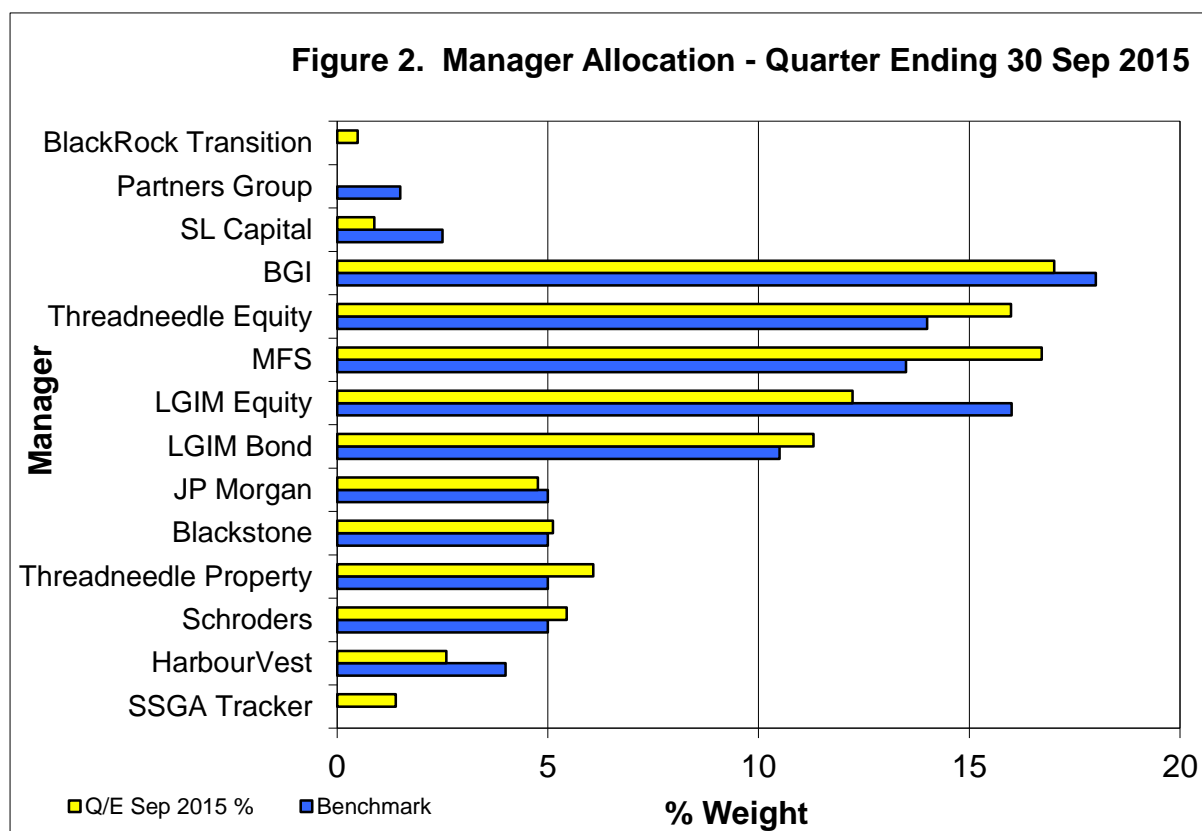


2.2 The fund managers' asset allocation against the benchmark for the quarter ending 30 September 2015 is shown in Table 2.

**Table 2: Fund Asset Allocation by Manager**

Manager	Q/E Sep 2015 %	Benchmark	Variance
SSGA Tracker	1.4	0.0	1.4
HarbourVest	2.6	4.0	-1.4
Schroders	5.5	5.0	0.5
Threadneedle Property	6.1	5.0	1.1
Blackstone	5.1	5.0	0.1
JP Morgan	4.8	5.0	-0.2
LGIM Bond	11.3	10.5	0.8
LGIM Equity	12.2	16.0	-3.8
MFS	16.7	13.5	3.2
Threadneedle Equity	16.0	14.0	2.0
BGI	17.0	18.0	-1.0
SL Capital	0.9	2.5	-1.6
Partners Group	0.0	1.5	-1.5
BlackRock Transition	0.5	0.0	0.5
Total	100.0	100.0	0.0

2.3.1 Fund asset allocation against each manager is shown in Figure 2.



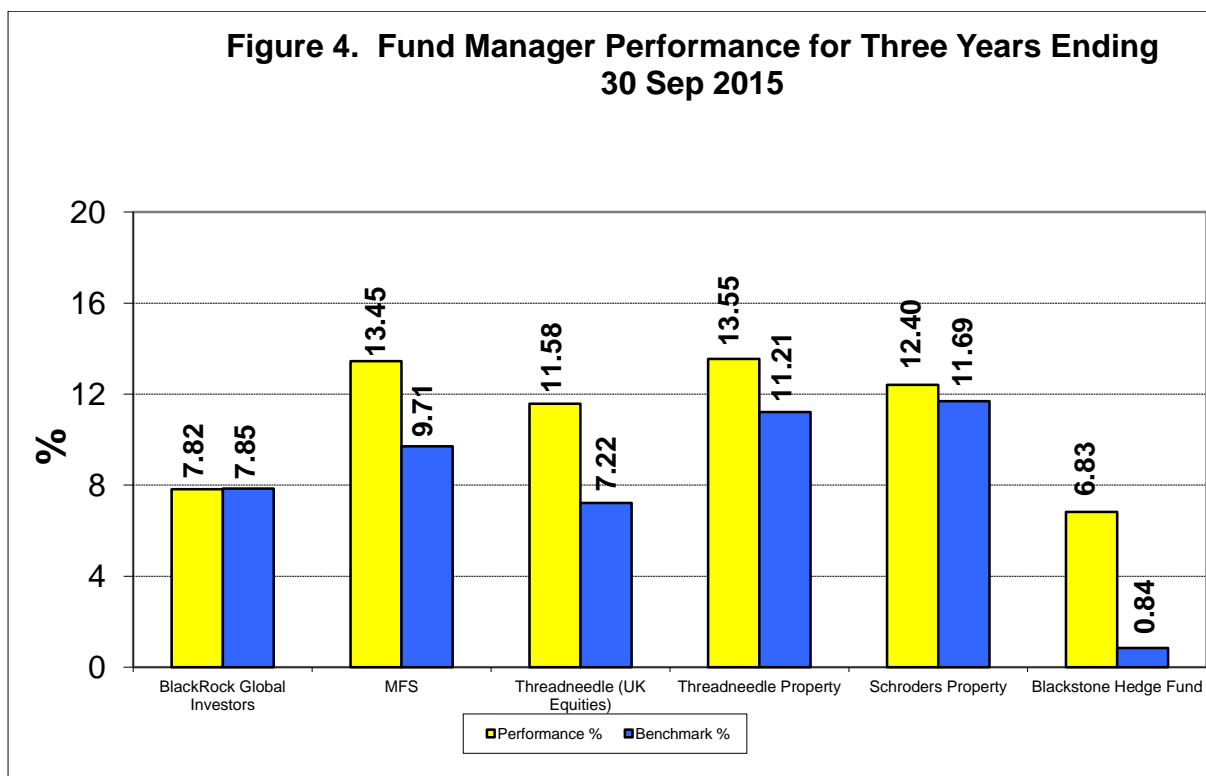
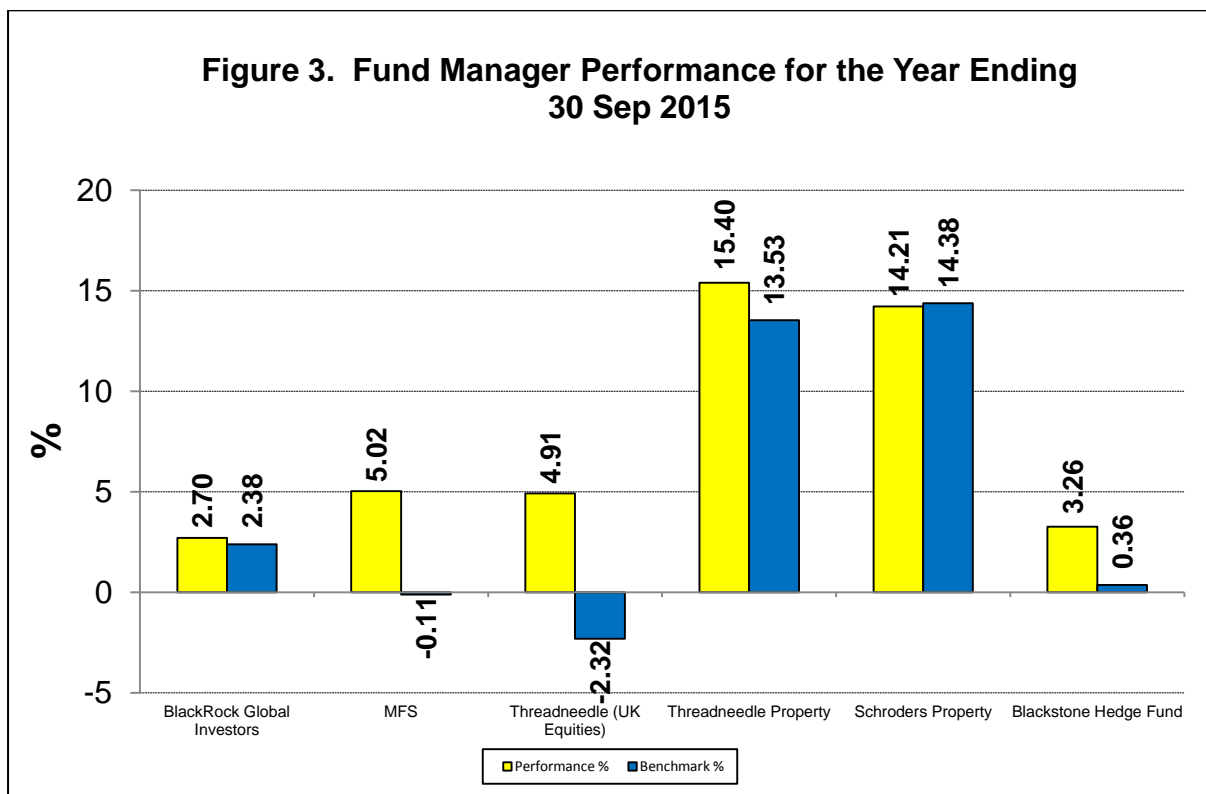
### 3. Fund Performance

3.1 Overall the fund out-performed its overall benchmark by 1.21%. The performances of managers against their benchmarks for the quarter ending 30 September 2015 were:

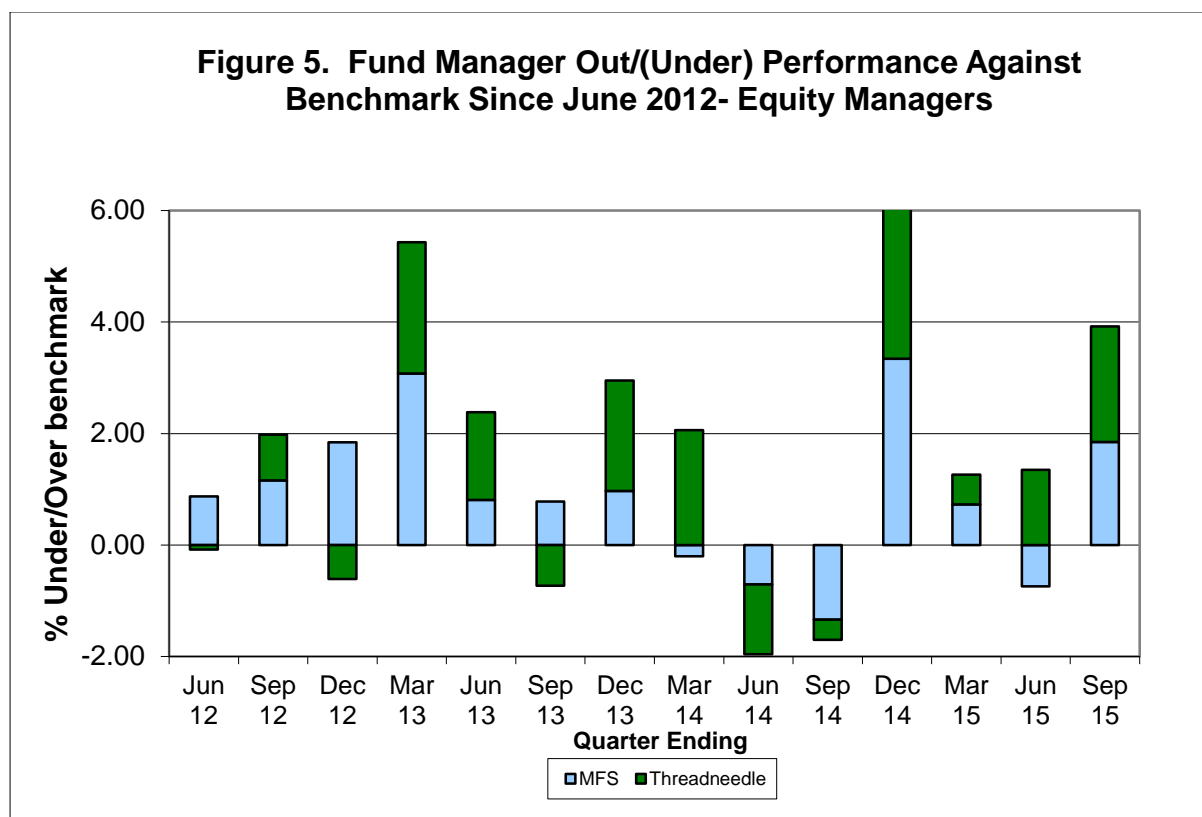
**Table 3: Performance by Fund Manager**

Manager	Benchmark Measure	Q/E Sep 2015	Benchmark	Variance
		%	%	%
BlackRock Global Investors	BlackRock Benchmark	-3.26	-3.49	<b>0.23</b>
MFS	Global Equity Benchmark	-4.14	-5.99	<b>1.85</b>
State Street Tracker	FTSE All-Share	-5.79	-5.70	<b>-0.09</b>
Threadneedle	FTSE All-Share	-3.64	-5.71	<b>2.07</b>
Legal and General (Global Equities)	LGIM Benchmark	-7.03	-6.86	<b>-0.17</b>
Legal and General (Fixed Interest)	LGIM Benchmark	1.43	1.35	<b>0.08</b>
Threadneedle Property	Customised Benchmark	3.40	3.00	<b>0.40</b>
Schroders Property	Customised Benchmark	3.49	2.99	<b>0.50</b>
Blackstone Hedge	Customised Benchmark	-0.41	0.09	<b>-0.50</b>
JP Morgan Strategic Bond	Customised Benchmark	-0.66	0.13	<b>-0.79</b>
<b>Total</b>	<b>WCC Total Fund Benchmark</b>	<b>-2.17</b>	<b>-3.38</b>	<b>1.21</b>

3.2 Annualised return for the fund managers to 30 September is summarised in Figure 3. The three year annualised return is summarised in Figure 4.



3.3 Equity Manager performance against their benchmarks are summarised in Figures 5.



## Background Papers

Bank of New York Mellon Quarterly Attribution Report - September 2015

	<b>Name</b>	<b>Contact Information</b>
Report Author	Sukhdev Singh, Senior Finance Officer.	01926 412671 <a href="mailto:sukhdevsingh@warwickshire.gov.uk">sukhdevsingh@warwickshire.gov.uk</a>
Head of Service	John Betts, Head of Finance	01926 412441 <a href="mailto:johnbetts@warwickshire.gov.uk">johnbetts@warwickshire.gov.uk</a>
Strategic Director	David Carter, Strategic Director, Resources Group	01926 412564 <a href="mailto:davidcarter@warwickshire.gov.uk">davidcarter@warwickshire.gov.uk</a>

## **Pension Fund Investment Sub-Committee**

**14 December 2015**

### **Pooling Update**

#### **Recommendation**

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

#### **1 Introduction**

- 1.1 At the sub-committee meeting on 14 September 2015 it was decided to pool the funds passive assets with one single asset manager in conjunction with six other County Council pension funds. It was also decided that the manager selection process be delegated to officers.
- 1.2 This report details the work that has taken place since this date.

#### **2. The Selection Process**

- 2.1 Following a request for proposal exercise to find a suitable investment consultant, BFinance were appointed by the funds to produce a report scoring potential managers for passive investments which would then lead to shortlisting and manager interviews.
- 2.2 BFinance provided a report following manager submissions to each of the funds for consideration and shortlisting. The results of this report were shared by BFinance to sub-committee members on 22 October which detailed and scored the submissions, with recommendations for manager interviews.
- 2.3 Seven fund managers submitted responses to BFinance. Following talks with BFinance and the other respective pension funds three managers were eliminated from the process, with the remaining four to be invited to interview.

#### **3. Interviews**

- 3.1 A meeting was held on 2 November 2015 at Staffordshire County Council where the following fund managers were interviewed:
  - State Street
  - UBS

- Blackrock
- Legal and General

3.2 Following this process Legal and General were successful.

3.3 Therefore the funds holding with Blackrock and residual assets with State Street will be transferred to Legal and General. Table 1 gives the value of these assets as at 30 September 2015.

**Table 1: Passive Manager Asset Values at 30 September 2015**

	<b>£m</b>
Blackrock (Multi Asset)	265.2
State Street (UK Equity)	21.6
<b>Total</b>	<b>286.8</b>

3.4 Holdings with Legal and General at 30 September totalled £366.7m. Therefore this would take their holding in the fund from 25% to around 40%. There is currently a restriction in investment regulations which places a cap of 35% that funds can invest in a single insurance policy. However this is being revisited as part of the wider Government consultation on asset pooling. Therefore officers are working with Legal and General to open another insurance policy to split the asset base into two contracts

#### **4. Progress since interviews**

4.1 Legal and General are confident that they have the capability to complete the transition within this calendar year. A transition report will be circulated to sub-committee members when completed.

4.2 Legal and General have confirmed that that the re-balancing function they currently undertake for the fund can continue to be provided.

4.3 As a large proportion of the funds emerging market assets are currently with Legal and General, transition costs will be lower than if another manager had been selected. However since appointment Legal and General have stated that they will cover the cost of transition.

4.4 Fee savings, whilst still a projection will be considerable. From the documentation and interviews typical fees will reduce from around 8 bpts to 3 bpts.

### **Background Papers**

BFinance Manager Search Report.

	<b>Name</b>	<b>Contact Information</b>
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## **Pension Fund Investment Sub-Committee**

**14 December 2015**

### **Independent Adviser - Outcome**

#### **Recommendation**

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

#### **1 Introduction**

- 1.1 The sub-committee decided to appoint a second adviser on 14 September 2015 with a view to improving overall scheme governance and to provide an additional resource.

#### **2. Interviews**

- 2.1 Three applicants applied for the role and all were all suitable for interview. Interviews were held on 20<sup>th</sup> November 2015 with three of the sub-committee and an officer. After a post interview discussion it was a unanimous decision amongst members to appoint Karen Shackleton.

#### **3. Next steps**

- 4.1 Officers still expect the cost of the independent adviser to remain in the region of £20,000 per annum, however further work is needed to cost the immediate future given the momentum around fund pooling and the need to act quickly in time for the Spring 2016 consultation response.

#### **Background Papers**

None

	<b>Name</b>	<b>Contact Information</b>
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