

**Minutes of the Pension Fund Investment
Sub-Committee meeting held on 13 March 2017**

Present:

Members

Councillors John Appleton, Bill Gifford (Vice Chair), Bob Stevens (Chair) and Alan Webb

Officers

John Betts – Head of Finance

Gary Dalton – Employment Solicitor

Mathew Dawson - Treasury and Pension Fund Manager

Vicki Forrester – Principal Accountant

Andrew Lovegrove - Head of Corporate Financial Services

Ben Patel-Sadler - Democratic Services Officer

Jane Pollard – Legal Services Manager

Invitees

Robert Bilton – Hymans Robertson

Peter Jones – Independent Investment Adviser

Paul Potter – Hymans Robertson

Karen Shackleton – Independent Investment Adviser

Richard Warden – Hymans Robertson

Observers

None

No members of the public attended.

1. General

(1) Apologies for absence

Councillor Brian Moss

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

None

(3) Minutes of the previous meeting held on 27 January 2017

The minutes of the meeting held on 27 January 2017 were agreed as a true and correct record and were signed by the Chair. The Committee wished to place on record their thanks to Andrew Lovegrove - Head of Corporate Financial Services who would shortly be leaving the Council to take up a position at a different local authority.

2. Investment Performance

Mathew Dawson – Treasury and Pension Fund Manager introduced the report and informed the Committee that the third quarter of 2016/17 had been a strong

one in terms of investment performance. Members noted that overseas equities had performed well and had seen an increase of 2%. The Sub-Committee noted that at the quarter end December 2016, the Private Equity Asset Allocation stood at 3.5%. This demonstrated good performance and was currently only 0.5% underweight. Absolute Return Bonds were -1.0% underweight. At the quarter end December 2016, the fund was holding 1.5% as cash.

Members noted that overall, the fund had under-performed its overall benchmark by 0.88%. Mathew Dawson informed the Sub-Committee that although Threadneedle had under-performed in relation to its benchmark for the quarter end December 2016, their overall performance was still good. The Committee noted that the long term performance of Fund Managers against their benchmark since December 2016 was good.

The Sub-Committee noted that the fund's investments in commercial property were predominantly in the retail and retail warehousing sectors – the fund did not seek to invest in single retail units. Past investments had been made in large, out of town shopping centres for example.

Resolved:

The Sub-Committee noted the fund value and investment performance for the third quarter of 2016/17 to 31 December 2016.

3. Investment Update (Verbal Update)

Paul Potter – Hymans Robertson circulated a presentation of slides in relation to the investment update. During the course of the presentation, the following points were noted by the Sub-Committee:

- With regards to setting the investment strategy, the Sub-Committee noted that two stages were associated with the process. Stage one (high level decision) established a broad level of risk and expected return and was based on long term funding objectives. This process looked at return-seeking assets (growth/income) versus low risk assets (protection). This was the most important investment decision in relation to the Fund which had the greatest impact on the Fund. Stage two of the process concentrated on detailed allocations/mandates and looked at specific allocations to asset classes, the nature of the investment manager mandates and an awareness of potential implications from BCPP pooling.
- The role of the Sub-Committee in relation to the strategy and structure of the pension fund was outlined to members. The Sub-Committee noted that in relation to pooling, the Sub-Committee would not retain the ability to select specific fund managers – this would be the responsibility of Border to Coast. However, members expressed a view that they would raise any concerns with Border to Coast if investment performance was not satisfactory.
- The Sub-Committee noted that the Fund was likely to be paying out the highest amount of benefits in around twenty years' time. As more members joined the scheme, liabilities would increase. It was the aim of

the Fund to invest in the longer term so that the scheme could continue to function effectively for decades to come.

- Members noted that if Fund growth continued at the present rate, then it was likely to become fully funded around the year 2036. The year in which the Fund would become fully funded would depend on investment performance, the amount of contributions to the Fund and the benefits paid out by the Fund.
- With regards to asset liability modelling, the Sub-Committee noted that thousands of simulations had been run (using current Fund data) to determine the likely future outcomes in relation to the Fund. Members noted that the worst and best case scenarios had been included when running the simulations. Approximately two-thirds of the simulated outcomes had resulted in a 'median risk' being achieved.
- The main aim of this simulation exercise was to determine the probability of the Fund reaching a fully funded position by a certain time.
- The Sub-Committee expressed a view that there were a significant number of variables which had the ability to impact on the time when the Fund would reach a fully funded position.
- Members noted that when the simulations were run, an assumption was made that the total workforce was likely to remain at the same level as it was currently. In order for the workforce numbers to have a significant impact on the year in which the Fund would reach a fully funded position, there would need to be a reduction of between 20%-30% of the current workforce.
- The Sub-Committee noted that during the simulation process, assumptions had been made that earnings would grow by around 1%-2%.
- Members noted that it was unknown at this point whether or not the Local Government Pension Scheme (LGPS) would be paying out the current level of benefits in the future. However, the simulations had been run with the assumption that the LGPS would continue to operate in its current form into the future. Members noted that the future of the LGPS would be a national debate and was not something which could be resolved by local authorities.
- With regards to the simulations which had been run, estimations had been made about the Fund's outgoings in relation to its potential benefit payments. At the present time, the Fund was in a satisfactory position to meet its projected liabilities.

- After the simulations had been run, the Sub-Committee noted that there was a 70% chance of the Fund reaching a fully funded position in ten years' time (if the current strategy remained in place).
- With regards to the Fund's investment strategy, the Sub-Committee noted that the probability of the Fund reaching a fully funded position within twenty years would diminish if the investment strategy adopted a completely low risk approach. The Sub-Committee noted that as the funding percentage of the Fund increased, the funding strategy could adopt a more low risk approach.
- In conclusion, the Sub-Committee noted that the current investment strategy provided a good chance of meeting the long term funding objective based on the contribution strategy agreed at the 2016 actuarial valuation.

Karen Shackleton – Independent Investment Adviser informed the Sub-Committee that there would need to be a compelling argument to change the current investment strategy, as overall, the current strategy was resulting in good investment performance and was on track to produce a Fund which became fully funded in the not too distant future

Resolved:

The Sub-Committee noted the presentation and were informed that a full report on the investment strategy would be tabled at the June 2017 meeting.

4. Investment Strategy Statement

Mathew Dawson - Treasury and Pension Fund Manager introduced the report and informed the Sub-Committee that new investment regulations issued on 21 September 2016 included a requirement for funds to publish new Investment Strategy Statements (ISS) by 1 April 2017.

The Sub-Committee noted that this would be a moving document which would be amended on a regular basis. The ISS set out the approach which the Fund had taken to setting an appropriate investment strategy, the restrictions on investments and also the current allocation of the Fund's investments. The ISS also outlined the current status of the Fund's pooling arrangements. The document also set out the stewardship code which set out the ethics associated with the Fund's present and potential future investments. The Sub-Committee noted that the obligation of the Fund was to take investment decisions in relation to its fiduciary duty – investment decisions should be taken on the merits of their potential returns to the Fund.

Resolved:

The Sub-Committee agreed to approve the Investment Strategy Statement.

5. Possible Prepayment of WCC Employer Contributions

John Betts – Head of Finance introduced the report and informed the Sub-Committee that the Fund would have several options in regard to the investing of the prepayment of the WCC employer contributions if the Council went ahead and prepaid contributions – these options were set out at 3.1 of the report.

Councillor Bill Gifford proposed that the Sub-Committee agreed to pursue with the recommendations set out at 3.1 of the report.

Resolved:

The Sub-Committee agreed the various options on the treatment of cash received from the County Council should that option be pursued by the County Council.

6. Rebalancing

Karen Shackleton – Independent Investment Adviser introduced the report and informed members that at the Sub-Committee meeting of 12 September 2016, the committee agreed the temporary suspension of the rebalancing of US equities. This was in view of the volatile market conditions, the forthcoming triennial valuation, LGPS pooling, and the lack of a passive swing fund through which to implement that rebalancing. Karen Shackleton recommended that the suspension was now lifted.

Resolved:

The Sub-Committee agreed to the recommendations set out in the report which would result in the rebalancing of US equities.

7. Funding Strategy Statement

Robert Bilton – Hymans Robertson introduced the report and drew the Sub-Committee's attention to the changes to the Statement.

The Sub-Committee noted that changes had been made to the mechanism which set contribution rates and to the stability mechanism used by precepting employers. Members noted that Section 13 was present to ensure that the funds paid in to the Fund were meeting the required benefits to be paid out.

Resolved:

The Sub-Committee agreed to approve the Funding Strategy Statement.

8. Actuarial Valuation Update (Verbal Update)

Richard Warden – Hymans Robertson informed the Sub-Committee that the end of the current valuation process was nearing completion and that contribution rates would not be increasing at this point.

Members noted that the Warwickshire Pension Fund was around 82% funded – this placed it in the top quartile nationally. The Sub-Committee noted that when compared to similar pension funds, the Warwickshire fund showed better than average investment performance.

Resolved:

The Sub-Committee noted the verbal update and were informed that a full report on the actuarial valuation would be tabled at the June 2017 meeting.

9. Business Plan

Mathew Dawson – Treasury and Pension Fund Manager introduced the report and informed the Sub-Committee that the report detailed what work would be undertaken by officers now and in the future.

Mathew Dawson informed the Sub-Committee that all business was being managed effectively, in particular, members noted that officers were undertaking effective communication with all employers (who were now fully aware of their responsibilities).

Resolved:

The Sub-Committee agreed to approve the Business Plan 2017/18.

10. Any other items

The Chair and Sub-Committee wished to place on records their thanks to Councillor John Appleton for his contributions throughout his tenure as a member sitting on the Sub-Committee. Members noted that Councillor Appleton was standing down as a Councillor at the May 2017 election.

11. Reports Containing Confidential or Exempt Information

To consider passing the following resolution:

‘That members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972’

12. Exempt Minutes of the meeting held on 27 January 2017

The exempt minutes of the meeting held on 27 January 2017 were agreed as a true and correct record and were signed by the Chair.

The meeting rose at 12.45pm

