

Pension Fund Investment Sub-Committee

10 September 2018

Agenda

The Pension Fund Investment Sub-Committee will meet in **Committee Room 2, Shire Hall, Warwick** on Monday **10 September 2018** at **10.00 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
- 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 Code of Conduct. These should be declared at the commencement of the meeting.

(2) Minutes of the previous meetings held on 11 June 2018

2. Forward Plan

3. Investment Performance

4. Any other items

Which in the view of the Chair, require urgent consideration

5. 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’.

6. Exempt minutes of the meeting held on 11 June 2018

7. Hymans Investment Fund Report

Quarterly Funding and Performance Update - 30 June 2018

8. Border to Coast - Budget and Update

To update on and seek approval for budget decisions relating to the Border to Coast Pension Partnership and to consider a decision making framework for the delegation of certain decisions in respect of the practical management of Border to Coast related work.

9. Private Equity Fund

To consider whether to reinvest in the existing Private Equity fund for which a window of opportunity is available, or to wait and invest in the Border to Coast Private Equity fund offer when that fund is available.

10. Global Equity Fund

To consider the plans for the Border to Coast Global Equity fund offer and whether to support a transfer of funds from the existing Global Equity fund.

11. Infrastructure Fund

To note the opportunity and need to reinvest in the existing Infrastructure fund and make a decision on how to approach the opportunity reinvest or to wait for the Border to Coast Infrastructure offer to be available.

David Carter
Joint Managing Director
Shire Hall
Warwick

Membership of the Pension Fund Investment Sub-Committee

Councillor Bill Gifford (Vice-Chair)
Councillor John Horner
Councillor Bob Stevens (Chair)
Councillor Wallace Redford
Councillor Alan Webb

For general enquiries please contact Helen Barnsley
Tel: 01926 412323/Email: helenbarnsley@warwickshire.gov.uk

Minutes of the Pension Fund Investment Sub-Committee meeting held on 11 June 2018

Present:

Members

Councillors Bill Gifford (Vice-Chair), John Horner, Bob Stevens (Chair), Wallace Redford and Alan Webb

Officers

John Betts – Head of Finance
Aneeta Dhoot – Senior Finance Officer
Chris Norton – Strategic Finance Manager
Jane Pollard – Legal Services Manager
Ben Patel-Sadler - Democratic Services Officer

Invitees

Tej Dosanjh – CEM Benchmarking
Rachel Elwell – CEO Border to Coast Pensions Partnership
Emma Garrett – Hymans Robertson
Peter Jones – Independent Investment Adviser
Paul Potter – Hymans Robertson
Karen Shackleton – Independent Investment Adviser
John Simmons – CEM Benchmarking
Richard Warden – Hymans Robertson

Observers

None

1. General

(1) Apologies for absence

None

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

None

(3) Minutes of the previous meetings held on 12 March 2018 and 15 May 2018

The Chair wished to place on record that the recent training session provided to members of the Sub-Committee by Hymans Robertson had been extremely informative and useful. The training had been tailored to impart the necessary knowledge required by members.

The minutes of the meetings held on 12 March 2018 and 15 May 2018 were agreed as true and correct records and were signed by the Chair.

2. Investment Performance

Chris Norton – Strategic Finance Manager introduced the report and informed the Sub-Committee that the overall fund value had decreased by 3.11% when compared to the previous quarter - but this was ahead of the benchmark which was a decrease of the 3.3%. Members noted that this decrease was due partly to stock market fluctuations which were now beginning to stabilise.

Paul Potter – Hymans Robertson informed the Sub-Committee that the investment performance in relation to equities had shown a rally at the end of March 2018.

Members noted that the fund was currently holding 4% of funds as cash which would be allocated to the Private Debt and Infrastructure asset classes.

Chris Norton informed the Sub-Committee that the Fund's cash held at the bank by the custodian would generate a small return before it was allocated to specific asset classes.

Chris Norton informed the Sub-Committee that Threadneedle Equity had shown a positive variance of 1.26% paid to benchmark for the quarter ending 31st March 2018. Active UK equities would be discussed further later on in the meeting.

Members noted that although some Fund Managers had shown a negative performance in relation to equities investments, the fund had over-performed its overall benchmark by 0.19%.

In relation to the MFS Fund Manager, members noted that although they had shown an underperformance at the quarter ending 31st March 2018, their overall performance was good. The Sub-Committee noted that MFS had undertaken a change in managers at the organisation in order to reflect current market characteristics.

The Sub-Committee queried how the fund's liabilities could continue to be paid if the amounts being paid into the fund by employees continued to decrease. Members requested that they be provided with details of the current net inflow to the fund. Members noted that future liabilities would be met via the returns being generated on current and future investments.

Resolved

That the Sub-Committee notes the fund value and investment performance for the last quarter of 2017/18 to 31 March 2018.

3. Share Voting

Chris Norton – Strategic Finance Manager introduced the report and informed the Sub-Committee that the proposed changes were seeking to reflect recent changes in corporate governance best practice. Members noted that the adoption of this revised policy would also serve to assist the transition to the Border to Coast Pool

(specifically the alignment or Warwickshire's current voting policy to the Border to Coast voting guidelines).

Resolved

That the Sub-Committee approves the Voting Policy, as outlined in Appendix A of the report.

4. Any other items

None

5. Reports Containing Confidential or Exempt Information

Resolved:

'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'.

6. Exempt Minutes of the Meeting held on 12 March 2018

The exempt minutes were agreed as a true and accurate record for signing by the Chair.

7. Actuarial Update (Hymans)

The Sub-Committee were provided with a revised actuarial update that was presented with revised content and style after members had provided feedback at a previous meeting. This report included additional information from the actuarial team at Hymans which had previously been requested by the Sub-Committee.

8. Private Equity Update

The Sub-Committee were provided with additional information around private equity and infrastructure investments and how they differed from other 'traditional' asset classes.

9. CEM Presentation - Warwickshire Investment Benchmarking Report

Members considered a presentation from CEM Benchmarking which outlined the process of comparing pension funds and their associated investment costs.

10. Borders to Coast Pension Partnership Implementation Costs and Regulatory Capital

Members received an update around the current and potential future Border to Coast Pension Partnership implementation costs.

11. Border to Coast Pension Partnership Update

The Sub-Committee received a verbal update from Rachel Elwell – CEO Border to Coast Pensions Partnership in relation to the progress being made at Border to Coast.

The meeting rose at 13.20 pm

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Chair

Pension Fund Investment Sub Committee

10 September 2018

Forward Plan

Recommendation

That the committee notes and comments on the forward plan

1.0 Introduction

- 1.1** The purpose of this report is to provide a draft forward plan for the Pension Fund Investment Sub Committee looking forwards a year. This is with the intention of maintaining an up to date programme of forward plan and agenda items which can be reviewed and updated at future meetings.
- 1.2** In order to assist in this some historical context of the kinds of reports and decisions that have been made by the committee over the last couple of years has also been provided. Appendix 1 provides this historical information and sets out a draft forward plan.
- 1.3** This is not intended to be rigid or definitive, the intention is that it can be updated and amended on a rolling basis at each meeting after being informed by the latest developments.

Background papers

None.

	Name	Contact Information
Report Author	Chris Norton	chrisnorton@warwickshire.gov.uk 07767003428
Head of Service	John Betts	01926 412441 johnbetts@warwickshire.gov.uk
Strategic Director	David Carter	01926 412564 davidcarter@warwickshire.gov.uk
Portfolio Holder	Bob Stevens	bobstevens@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s): None
Other members: None

Appendix 1

2016/17

17 th May	13 th June	12 th Sept	12 th Dec	27 th Jan	13 th March
	Investment Performance	Investment Performance	Investment Performance		Investment Performance
Election of Chair and Vice Chair	Outcome of Transition – Passive Management (enacting Legal and General as the single passive fund)	Fund Rebalancing (putting on hold Legal and General US equities rebalancing)	The Stewardship Code (approving a code that fund managers are expected to meet)		Investment Verbal Update
	Business Plan	Brexit Implications (briefing report)	2016 Actuarial Valuation (initial Funding Strategy Statement, valuation results, employer rates, etc)		Investment Strategy Statement
	Actuarial Valuation 2016 Initial Planning	Actuarial Valuation 2016 (planning, and detailed modelling assumptions)	Pooling Update		Possible Prepayment of WCC Contributions
	The Future of the LGPS Follow Up (MoU, ToR, etc for BCPP set up)	Investment Update (Hymans)	Presentation from Markham Rae (opportunity to invest in “Trade Finance”)	Trade Finance – Markham Rae Trade Capital Partners I (decision to invest or not)	Rebalancing (lifting the hold on Legal and General US equities rebalancing)
	Presentations from SL Capital and Schroders				Funding Strategy Statement
					Actuarial Update (verbal)
					Business Plan 2017/18

2017/18

23 rd May	12 th June	11 th Sept	18 th December	12 th March
	Investment Performance	Investment Performance	Investment Performance	Investment Performance
Election of Chair and Vice Chair	Cash Flow Report (ensuring adequate cashflow over 3 year horizon)	MIFID 2 (opt up process)	Appointment of Private Debt Manager(s)	Business Plan 2018/19
	2016 Actuarial Valuation (noting the final results)	Actuarial Services (Tendering process for Actuarial Contract)	Investment Guiding Principles	Training Plan 2018/19
	Review of Pension Fund Risk Management		BCPP Responsible Investment and Voting Guidelines	Investment Strategy Statement
	MIFID2 Presentation (Training)	Pooling Verbal Update	Pooling Verbal Update	Presentation by Schroders (UK property)
	Investment Update (review of investment strategy and change of strategic asset allocation)	Investment Update (enacting the changes in strategic asset allocation)	MIFID 2 Verbal Update	Presentation by Analytics (review of active equity manager performance)
	Private Equity Update (Harbourvest HIPEP VIII)	Partners Group Infrastructure Update	Results from Training Survey	Actuarial Services (feed back on award of contract)

2018/19 (*Italics = Draft forward plan*)

15th May	11th June	10th September	10th December	11th March
	Investment Performance	Investment Performance	<i>Investment Performance</i>	<i>Investment Performance</i>
Election of Chair and Vice Chair	Revised Voting Policy (ensuring alignment with pool policies)	Hymans Quarterly Funding and Performance Report	<i>Hymans Quarterly Funding and Performance Report</i>	<i>Business Plan 2019/20</i>
	Actuarial Update (funding and performance update, equity protection briefing)	Border to Coast – Budget and Update (budget, decision making policies, general update, UK equity transfer update)	<i>2019 Actuarial Valuation</i> <i>GAD Review of 2016</i> <i>Cost Management Results</i>	<i>2019 Actuarial Valuation</i> <i>Employers Funding Strategy Modelling</i> <i>Investment Risk / Contributions Balance</i>
	Private Equity Update (reinvest or wait for BCPP)	Private Equity (reinvest or wait for BCPP)	<i>BCPP Planning Future Transfers</i> <i>BCPP Monitoring Previous Transfers</i>	<i>BCPP Planning Future Transfers</i> <i>BCPP Monitoring Previous Transfers</i>
	CEM Presentation (detailed 2016/17 performance and costs analysis)	Global Equity (preparations to invest in BCPP)	<i>MIFID 2</i> <i>(First Year Review)</i>	<i>Investment Strategy Statement Review</i>
	BCPP Implementation Budget	Forward Plan	<i>Forward Plan</i>	<i>Risk Management Review</i>
				<i>Voting, Governance, Responsible Investing Review</i>
				<i>Forward Plan</i>

2019/20 (*Italics = draft forward plan*)

May	June	September	December	March
	<i>Investment Performance</i>	<i>Investment Performance</i>	<i>Investment Performance</i>	<i>Investment Performance</i>
<i>Election of Chair and Vice Chair</i>	<i>BCPP Planning Future Transfers</i> <i>BCPP Monitoring Previous Transfers</i>	<i>BCPP Planning Future Transfers</i> <i>BCPP Monitoring Previous Transfers</i>	<i>BCPP Planning Future Transfers</i> <i>BCPP Monitoring Previous Transfers</i>	<i>BCPP Planning Future Transfers</i> <i>BCPP Monitoring Previous Transfers</i>
	<i>Forward Plan</i>	<i>Forward Plan</i>	<i>Forward Plan</i>	<i>Forward Plan</i>
	<i>Private Markets Annual Review</i> <i>(annual update on private market programmes including decisions on commitments)</i>			<i>Investment Strategy Statement Review</i>
	<i>2019 Actuarial Valuation</i> <i>Detailed Plan</i> <i>Assumptions</i>	<i>2019 Actuarial Valuation</i> <i>Present Whole Fund Results</i>	<i>2019 Actuarial Valuation</i> <i>Agreed Employer Funding Strategies</i> <i>Draft Funding Strategy Statement</i>	<i>2019 Actuarial Valuation</i> <i>Valuation Sign Off</i> <i>Funding Strategy Statement</i>
				<i>Business Plan</i>
				<i>Training Plan</i>
				<i>Risk Management Review</i>

Pension Fund Investment Sub Committee

10 September 2018

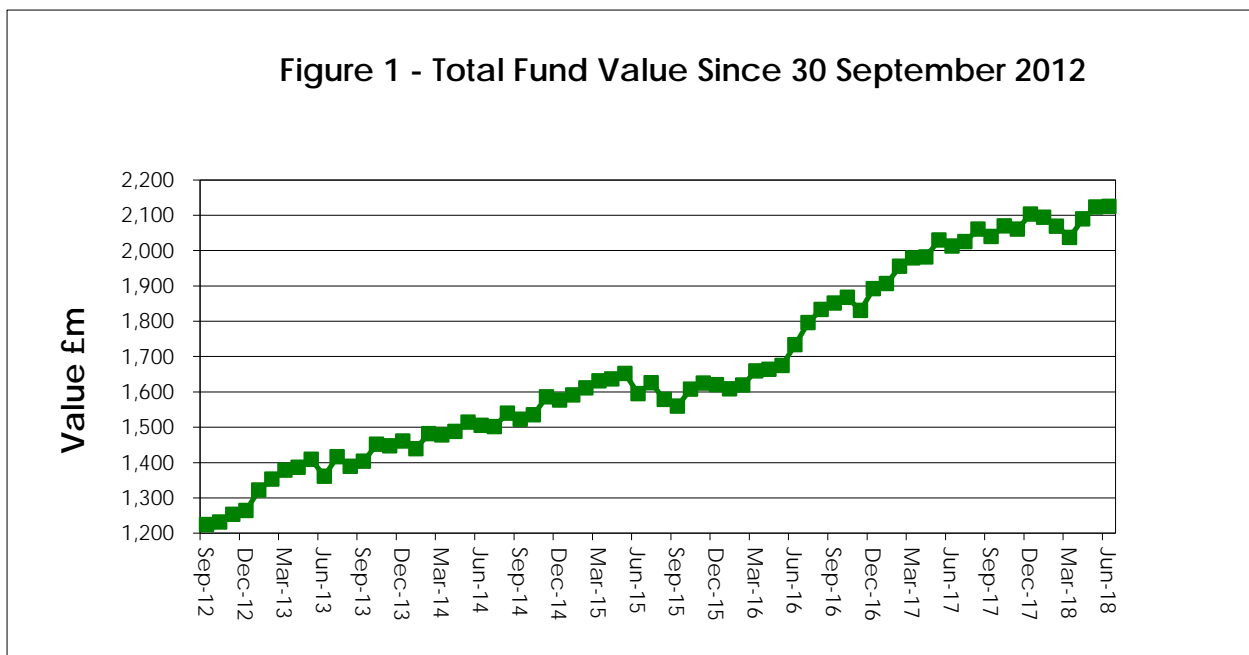
Investment Performance

Recommendation

That the Sub Committee note the fund value and investment performance for the first quarter of 2018/19 to 30 June 2018.

1. Fund Value at 30 June 2018

1.1 The fund value was £2,124.9 at 30th June 2018 an increase of 4.34% against the previous quarter of £2,037.3 at 31st March 2018 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 June 2018 is shown in Table 1.

Table 1: Fund Asset Allocation

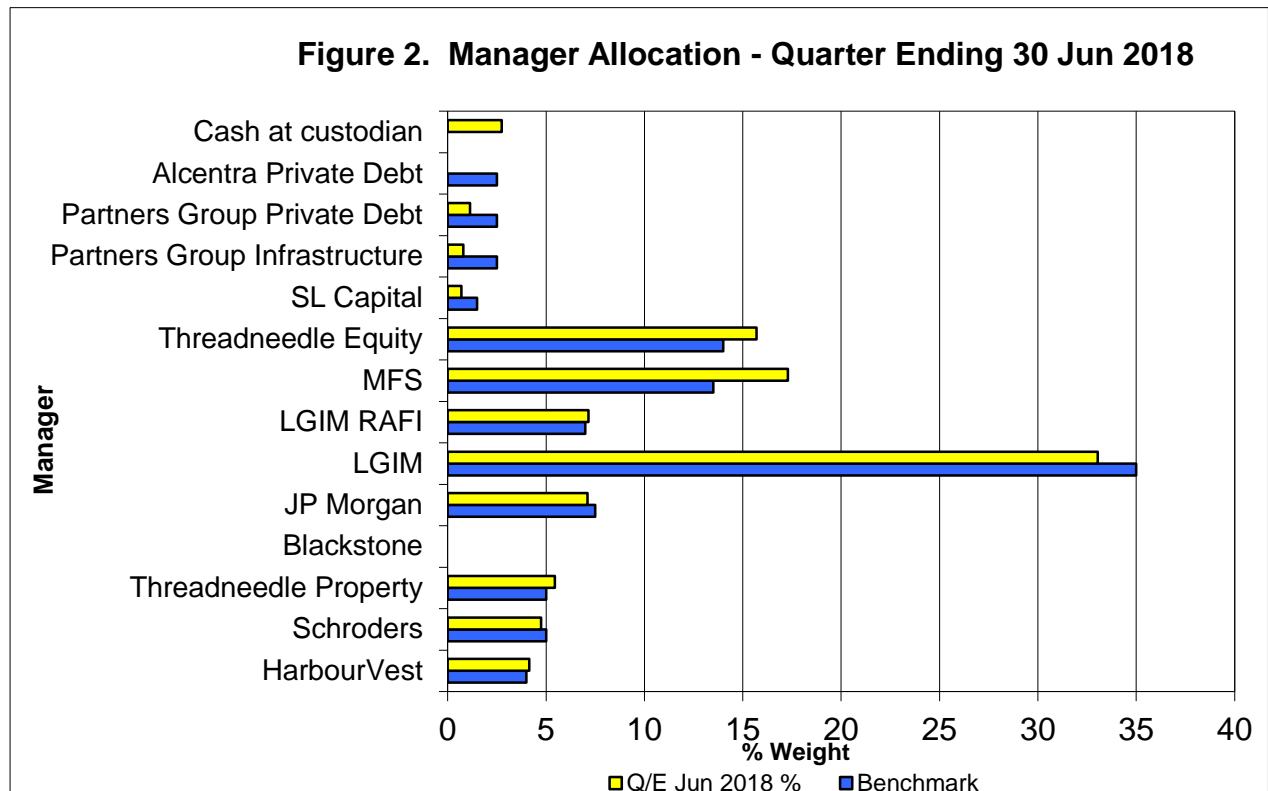
Q/E Mar 2018	Asset Class	Q/E Jun 2018	Variance Jun Qtr to Mar Qtr	Fund policy	Over/under weight
%		%		%	%
56.9	Equity	57.6	0.7	54.5	3.1
22.7	UK	23.1	0.4	21.0	2.1
27.1	Overseas	27.4	0.3	26.5	0.9
7.1	Fundamental Global Equity	7.2	0.1	7.0	0.2
15.7	Fixed Income	15.4	-0.4	15.0	0.4
10.3	UK corporate bonds	10.3	0.0	10.0	0.3
5.4	UK index linked bonds	5.1	-0.3	5.0	0.1
3.8	Private Equity	4.2	0.4	4.0	0.2
10.2	Property	10.1	-0.1	10.0	0.1
7.8	Absolute Return Bonds	7.1	-0.7	7.5	-0.4
1.6	Infrastructure	1.7	0.1	4.0	-2.3
0.0	Private Debt	1.2	1.2	5.0	-3.8
4.0	Cash	2.7	-1.3	0.0	2.7

2.2 The fund managers' asset allocation against the benchmark for the quarter ending 30 June 2018 is shown in Table 2.

Table 2: Fund Asset Allocation by Manager

Q/E Mar 2018 %	Manager	Q/E Jun 2018 %	Variance Jun Qtr to Mar Qtr	Benchmark	Variance Jun to Benchmark
3.8	HarbourVest	4.2	0.4	4.0	0.2
4.9	Schroders	4.8	-0.2	5.0	-0.3
5.6	Threadneedle Property	5.5	-0.1	5.0	0.5
0.2	Blackstone	0.0	-0.2	0.0	0.0
7.7	JP Morgan	7.1	-0.6	7.5	-0.4
33.5	LGIM	33.0	-0.5	35.0	-2.0
7.1	LGIM RAFI	7.2	0.1	7.0	0.2
16.9	MFS	17.3	0.4	13.5	3.8
15.1	Threadneedle Equity	15.7	0.6	14.0	1.7
0.7	SL Capital	0.7	0.0	1.5	-0.8
0.7	Partners Group Infrastructure	0.8	0.1	2.5	-1.7
0.0	Partners Group Private Debt	1.1	1.1	2.5	-1.4
0.0	Alcentra Private Debt	0.0	0.0	2.5	-2.5
4.0	Cash at custodian	2.7	-1.3	0.0	2.7
100.0	Total	100.0	-0.2	100.0	0.0

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



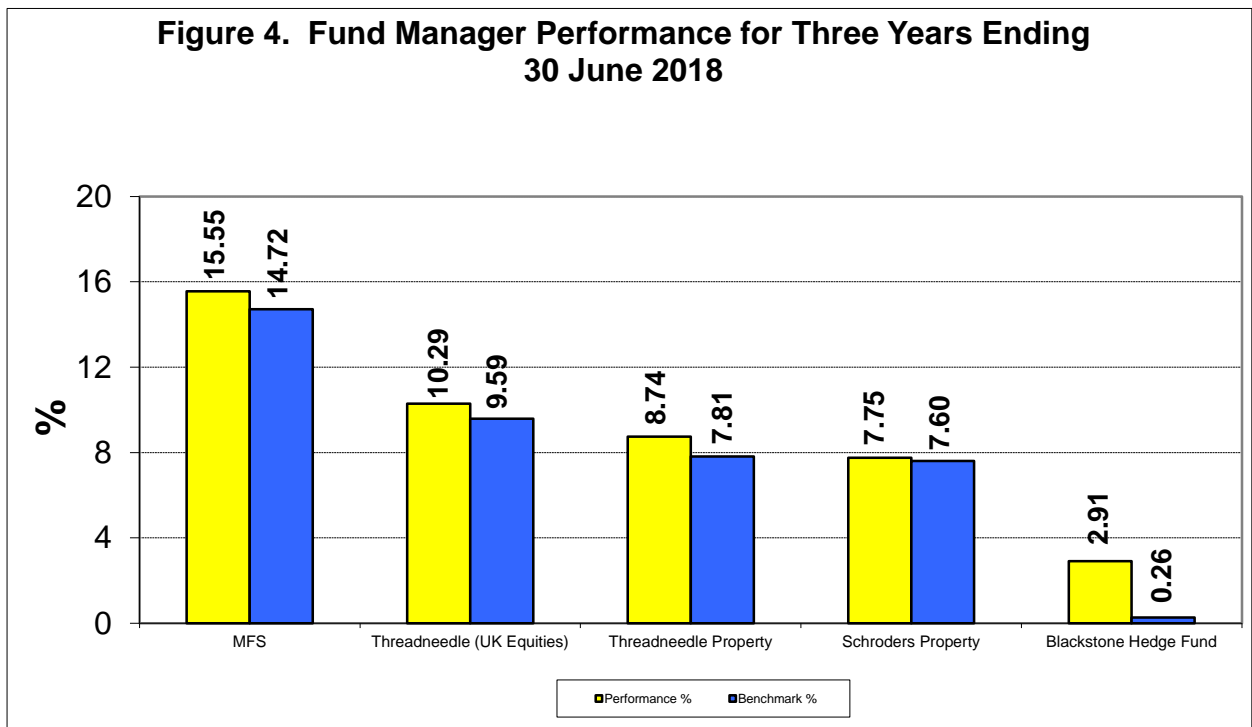
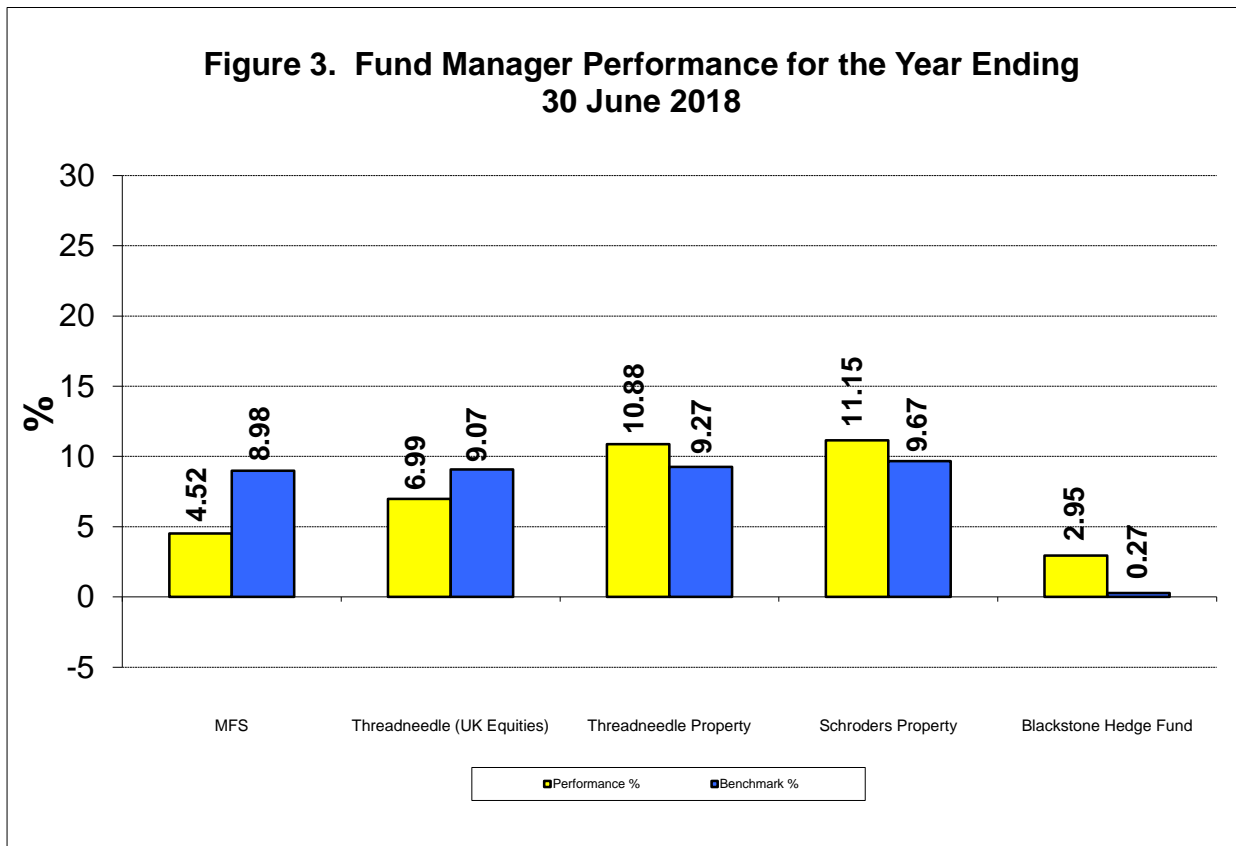
3. Fund Performance

3.1 Overall the fund under-performed its overall benchmark by 0.16%. The performances of managers against their benchmarks for the quarter ending 30 June 2018 were:

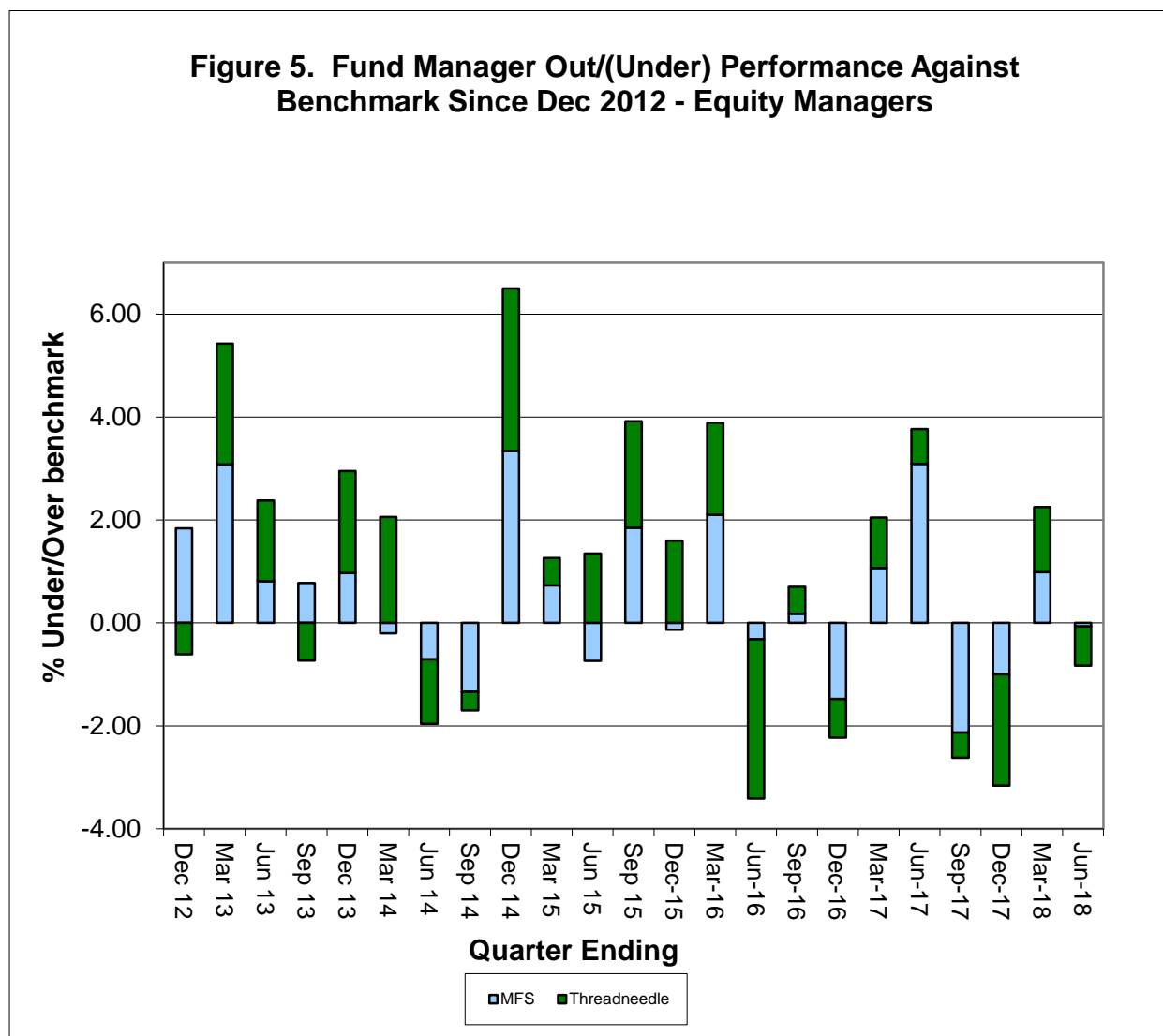
Table 3: Performance by Fund Manager

Manager	Benchmark Measure	Q/E Jun 2018	Benchmark	Variance
		%	%	%
MFS	Global Equity Benchmark	6.74	6.81	-0.07
Threadneedle	FTSE All-Share	8.46	9.22	-0.76
Legal and General (Equities)	LGIM Benchmark	5.04	5.38	-0.34
Legal and General (Fixed Interest)	LGIM Benchmark	-0.48	-0.11	-0.37
Threadneedle Property	Customised Benchmark	1.83	1.85	-0.02
Schroders Property	Customised Benchmark	2.25	1.96	0.29
Blackstone Hedge	Customised Benchmark	0.01	0.09	-0.08
JP Morgan Strategic Bond	Customised Benchmark	-1.03	0.13	-1.16
Total	WCC Total Fund Benchmark	4.34	4.50	-0.16

3.2 Annualised return for the fund managers to 30 June 2018 is summarised in Figure 3. The three year annualised return is summarised in Figure 4.



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



	Name	Contact Information
Report Author	Shawn Gladwin, Senior Finance Officer	01926 412861 shawngladwin@warwickshire.gov.uk
Head of Service	John Betts, Head of Finance	01926 412441 johnbetts@warwickshire.gov.uk
Strategic Director	David Carter, Strategic Director, Resources Group	01926 412564 davidcarter@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s): None
Other members: None