

Pension Fund Investment Sub-Committee

13 March 2019

Agenda

The Pension Fund Investment Sub-Committee will meet in **Committee Room 2, Shire Hall, Warwick** on Wednesday **13 March 2019** 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 10 December 2018

2. Forward Plan

3. Business Plan

4. Quarter 3 Investment Performance

5. Any other items

Which in the view of the Chair, require urgent consideration

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 previous meetings held on 10 December 2018**
- 7. Fund Performance Report – Hymans**
- 8. Affordable Housing Investment – Hymans**
- 9. 2019 Actuarial Valuation – Hymans**
- 10. Global Equity Transfer**
- 11. Border to Coast Update**
- 12. Investment Strategy Statement Review**
- 13. Draft MHCLG Guidance on LPGS Pooling**
- 14. Private Equity Investment**

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
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Minutes of the Pension Fund Investment Sub-Committee meeting held on 10 December 2018

Present:

Members

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

Officers

Aneeta Dhoot – Senior Finance Officer
Chris Norton – Strategic Finance Manager
Helen Barnsley - Democratic Services Officer
Jane Pollard – Legal Service Manager
Michael Nicolaou – Interim Treasury Manager
Sukhdev Singh – Senior Finance Manager

Invitees

Daniel Booth – Chief Investment Officer – Border to Coast Pensions Partnership
Karen Shackleton – Independent Investment Adviser
Mathew Dawson – Client Relationship Manager, Border to Coast Pensions Partnership
Paul Potter – Hymans Robertson
Peter Jones – Independent Investment Adviser
Richard Warden – Hymans Robertson

1. General

(1) Apologies for absence

None

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

None

(3) Minutes of the previous meeting held on 10 September 2018

The minutes of the meeting held on 10 September 2018 were agreed as true and correct record and were signed by the Chair.

2. Forward Plan

Chris Norton, Strategic Finance Manager presented an updated version of the report to the Committee. It was noted that the Committee can add additional items as required. Following a review of the work programme in early 2019, a decision will be taken regarding holding an extra meeting.

Resolved

That the Sub-Committee notes the forward plan

3. Investment Performance

Chris Norton, Strategic Finance Manager presented the report regarding the fund value and investment performance for the second quarter of 2018/19. The Committee was asked to note that the report for Quarter Three will feature money moved across into the Global Equity Fund.

It was noted by the Committee that the fund manager report showed performance that was better than the benchmark, which itself is performing well. MFS Investment Management (MFS) also performed better in the second quarter (covered later in the agenda) and consideration was given to the Committee inviting them to a future meeting.

Resolved

That the Sub-Committee notes the fund value and investment performance for the second quarter of 2018-19 to 30 September 2018

4. Markets in Financial Instruments Directive 2 (MIFID) update

Chris Norton, Strategic Finance Manager presented the report to the Committee which gave an update on the MIFID framework.

Successful training sessions had been held for members of the Committee which received positive feedback from attendees. It was agreed that there was no action required following the report but that Chris Norton would arrange for a further two training sessions in 2019.

Resolved

That the Sub-Committee notes and comment on the report

5. Border to Coast RI Policy

Michael Nicolaou, Interim Treasury Manager presented the report highlighting Border to Coast responsible investment policies. The policies were approved by the Pensions Joint Committee on 21 November 2018.

The Committee was asked to note point 8.2 of Appendix A; the underlying principles of the policies need to be agreed rather than each individual investment. The Committee agreed to the principles of the policies and acknowledged that the policy could be reviewed at the request of the Committee at any future meeting.

Resolved

That the Sub-Committee:

- 1) Notes and comments on the Border to Coast Pension Partnership revised Responsible Investment policies; and
- 2) Resolves that the WCC Pension Fund adopts the principles of the Border to Coast Pension Partnership revised Responsible Investment policies.

6. Any other items

Councillor John Horner asked for officer's views on pension funds investing in social and affordable housing. It was acknowledged that geographical considerations could not be taken into account – i.e. the fund could not invest only in Warwickshire based schemes. Karen Shackleton, Independent Investment Adviser confirmed that there are advantages of pension fund investment pools in social and affordable housing. There are diversified returns that would include returns on local investments. Paul Potter, Hymans Robertson advised that the Committee should tread carefully and ensure that the risk and return is balanced.

Peter Jones, Independent Investment Adviser requested that it be noted in the minutes that he is a Director of Halliwell Housing in East Anglia. This would not be recorded as a Declaration of Interest.

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'.

7. Risk Register

Resolved:

That the Sub-Committee agree to the recommendations as set out within the exempt minutes.

8. Quarterly Funding and Performance Update

Resolved:

That the Sub-Committee agree to the recommendations as set out within the exempt minutes.

9. Actuarial Update

Resolved:

That the Sub-Committee agree to the recommendations as set out within the exempt minutes.

10. Border to Coast Chief Investment Officer Briefing

Resolved:

That the Sub-Committee agree to the recommendations as set out within the exempt minutes.

11. Border to Coast Update

Resolved:

That the Sub-Committee agreed to the recommendations as set out within the exempt minutes.

12. Global Equities Fund Update

Resolved:

That the Sub-Committee agreed to the recommendations as set out within the exempt minutes.

13. Scheme of Delegation

Resolved:

That the Sub-Committee agreed to the recommendations as set out within the exempt minutes.

14. Property Debt

Resolved:

That the Sub-Committee agreed to the recommendations as set out within the exempt minutes.

15. Exempt minutes of the meeting held on 10 September 2018

The exempt minutes of the meeting held on 10 September 2018 were agreed as true and correct record and were signed by the Chair.

The meeting rose at 12:52pm

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Chair

Pension Fund Investment Sub Committee

13 March 2019

Forward Plan

Recommendation

That the Sub Committee notes and comments on the forward plan at Appendix A.

1.0 Introduction

1.1 The purpose of this report is to provide an updated forward plan for the Pension Fund Investment Sub Committee rolled forward to cover the year ahead.

1.2 There are two changes to the forward plan:

- The original plan for the March actuarial update was to consider employer funding strategy modelling and the balance between investment risk and employer contributions. However, the timescales for data collection mean that this modelling work is more appropriate to schedule for June and therefore work around revaluation assumptions has been brought forward to the March meeting.
- The Voting, Governance and Responsible Investing review that was scheduled for March has been rescheduled to June to align with the anticipated timing of the Border to Coast policy updates.

Background papers

None.

	Name	Contact Information
Report Author	Chris Norton	chrisnorton@warwickshire.gov.uk 07767003428
Interim Assistant Director Finance and ICT Strategy	Lisa Kitto	01926 412441 lisakitto@warwickshire.gov.uk
Joint Managing Director (Resources)	David Carter	01926 412564 davidcarter@warwickshire.gov.uk
Portfolio Holder	Peter Butlin	cllrbutlin@warwickshire.gov.uk

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

Local Member(s):

Other members:

March 2019	May 2019	June 2019	September 2019	December 2019	March 2020
Investment Performance		Investment Performance	Investment Performance	Investment Performance	Investment Performance
BCPP Planning Future Transfers BCPP Monitoring Previous Transfers	Election of Chair and Vice Chair	BCPP Planning Future Transfers BCPP Monitoring Previous Transfers	BCPP Planning Future Transfers BCPP Monitoring Previous Transfers	BCPP Planning Future Transfers BCPP Monitoring Previous Transfers	BCPP Planning Future Transfers BCPP Monitoring Previous Transfers
Forward Plan		Forward Plan	Forward Plan	Forward Plan	Forward Plan
Business Plan 2019/20		Private Markets Annual Review (annual update on private market programmes including decisions on commitments)			Investment Strategy Statement Review
2019 Actuarial Valuation Assumptions		2019 Actuarial Valuation Employers Funding Strategy Modelling Investment Risk / Contributions Balance	2019 Actuarial Valuation Present Whole Fund Results	2019 Actuarial Valuation Agreed Employer Funding Strategies Draft Funding Strategy Statement	2019 Actuarial Valuation Valuation Sign Off Funding Strategy Statement
Investment Strategy Statement Review		Voting, Governance, Responsible Investing Review		Business Plan	
				Training Plan	
				Risk Management Review	

Pension Investment Sub Committee

13 March 2019

Business Plan

Recommendation

That the Pension Investment Sub Committee approves the Business Plan attached at Appendix A.

1. Purpose of Report

- 1.1 It is best practice for local authority pension funds to operate a formal and documented Business Plan for their operations. This report sets out a recommended Business Plan for 2019/20.

2. Business Plan 2018/19

- 2.1 The Business Plan encompasses key activities that need to happen during the year.
- 2.2 The Business Plan has also been reported to the Local Pension Board.

3. Recommendation

- 3.1 That the Sub Committee approves the proposed Business Plan attached at Appendix A.

4. Background Papers

None

	Name	Contact Information
Report Author	Chris Norton Strategic Finance Manager	07767003428 chrisnorton@warwickshire.gov.uk
Interim Assistant Director Finance and ICT Services	Lisa Kitto	01926 412441 lisakitto@warwickshire.gov.uk
Joint Managing Director (Resources)	David Carter,	01926 412564 davidcarter@warwickshire.gov.uk
Portfolio Holder	Peter Butlin	cllrbutlin@warwickshire.gov.uk

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

Local Member(s):

Other members:

Warwickshire Pension Fund Business Plan 2019/20

1. Introduction

This document sets out the business plan for the Warwickshire Pension Fund for 2019/20.

As at the last accounting date in March 2018 the fund had 47,651 members and £2bn in assets.

Table 1 - Membership

Type	No. Members
Active	16,754
Deferred	17,805
Retired	13,092
Total	47,651

Table 2 – Strategic Asset Allocation

Fund Type	Strategic Asset Allocation
UK Equity	20.0%
Overseas Equity	27.5%
Fundamental Global Equity	7.0%
UK Corporate Bonds	10.0%
UK Index Linked Bonds	5.0%
Private Equity	4.0%
Property	10.0%
Absolute Return Bonds	7.5%
Infrastructure	4.0%
Private Debt	5.0%
Total	100.0%

2. Objectives

The overall objectives of the fund are twofold:

Ensure that funds are available to pay member pensions when they are due, delivered through effective forecasting of long term liabilities, determination and collection of appropriate contributions, and generation of an appropriate risk adjusted return on the fund's investments.

Ensure that pensions are paid accurately and on time when they are due, delivered through an effective benefits administration service.

3. Context

Demand on the administrative team has increased over time with an increasing number of employing organisations, an increasing number of employers with higher risk covenants, increasing expectations around governance requirements, and as a result of the scheme becoming more complex since the change to the career average method.

A challenge for the fund will be to ensure that capacity is appropriate to meet this demand in the short term and a review of capacity will be undertaken to this end.

Another line of action will be to seek to reduce costs, improve compliance, and improve the experience for employers and employees through automation.

iConnect is a system that facilitates the automation of many of the tasks around employer data transfer and validation. Member self-service is a way of automating some interfaces with members and improving accessibility of information. Both of these opportunities will be looked at in depth during 2019/20.

The pooling of pension funds has been in progress for some time and in 2018/19 the Warwickshire Pension Fund invested in its first pooled fund with the Border to Coast Pension Partnership. There will be further pooling opportunities in 2019/20. The Fund will need to make significant decisions around each opportunity and as more funds transfer the task of beginning to monitor the delivery of the expected benefits will arise.

4. Actions

Annex 1 sets out a summary of the actions planned for the coming year. Actions are grouped into the following categories:

- Administration
- Actuarial
- Investment
- Governance

5. Forward Planning

A forward plan of future agenda items will be maintained for the Pension Fund Investment Sub Committee and the Local Pension Board. Copies of the current forward plans are set out at Annex 2 and 3.

Administration Activities

	Action	Timescale
1	Deliver a Pension Fund Annual General Meeting. Updating fund stakeholders on investment and governance developments.	November 2019
2	Deliver a Pension Fund Employers Meeting. Updating employers on developments relating to the administration of the scheme.	November 2019
3	Regular review of complaints. Ensuring specific and systematic issues are identified and actioned.	Ongoing
4	Develop a business case for use of iConnect. Developing the case for a facility to further automate the transfer and validation of employer data.	June 2019
5	Develop a business case for the introduction of online member self service Developing the case for the facility to automate interactions with Members.	June 2019
6	Review compliance with GDPR requirements.	October 2019
7	Annual pensions newsletter issued	April-June 2019
8	Benefit statements issued	May-August 2019
9	Report administration performance KPIs to the Local Pension Board	Ongoing
10	Keep the new pension fund web site up to date with developments	Ongoing
11	Review the capacity available to deliver fund objectives.	June 2019
12	Review of fund policies to ensure they are up to date for current requirements	June 2019

Actuarial Activities

	Action	Timescale
13	Delivery of 2019 revaluation activities Collection of data, sharing results with employers, liability calculations, and development of a funding strategy	Ongoing through 2019/20
14	Monitor employer contribution performance through the year	Ongoing
15	Review employer covenants and risk management for non-statutory employers	July 2019

Investment Activities

	Action	Timescale
16	Make decisions regarding new Border to Coast fund launches	Ongoing
17	Implement Border to Coast fund transfers where approved	Ongoing
18	Ensure the fund remains MIFID2 compliant	Ongoing
19	Continued growth of alternative asset classes towards their target strategic asset allocation	Ongoing
20	Meet with directly commissioned active fund managers	Annually
21	Quarterly investment monitoring reports provided to the investment sub-committee.	Quarterly
22	Review investment strategy statement	By March 2020
23	Plan cashflow in order to avoid the need to sell assets under time pressure	Ongoing

Governance Activities

	Action	Timescale
24	Production of draft statement of accounts	May 2019
25	Publication of Annual Pension Fund Report	November 2019
26	Ensure a risk register is maintained	Annually
27	To ensure employers join and leave the fund in accordance with LGPS and Warwickshire Pension Fund policies	Ongoing
28	Review of contracts for services provided to the Pension Fund	September 2019
29	Support governing committees and boards in the delivery of their responsibilities through the provision of appropriate information, advice, and training: <ul style="list-style-type: none"> • Pension and Investments Sub-Committee • Local Pension Board • Staff and Pensions Committee 	Ongoing

Pension Fund Investment Sub Committee 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 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>

Local Pension Board Forward Plan

July 2019	November 2019	March 2020
Review of the reports and minutes of the Pension Fund Investment Sub Committee	Review of the reports and minutes of the Pension Fund Investment Sub Committee	Review of the reports and minutes of the Pension Fund Investment Sub Committee
Administration Update	Administration Update	Administration Update
Chairs Annual Report		Risk Register
		Business Plan
Forward Plan	Forward Plan	Forward Plan

Pension Fund Investment Sub Committee

13 March 2019

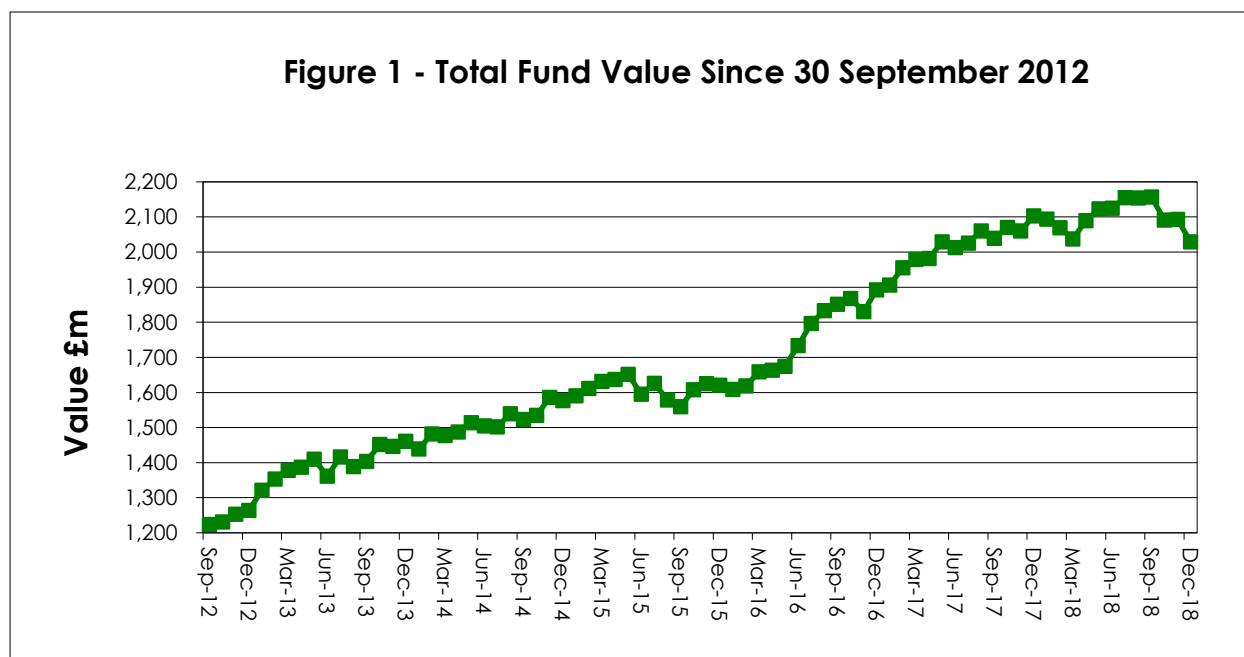
Investment Performance

Recommendation

That the Sub Committee note the fund value and investment performance for the first quarter of 2018/19 to 31st December 2018.

1. Fund Value at 31st December 2018

- 1.1 The fund value was £2,029.4m at 31st December 2018 a decrease of 5.92% against the previous quarter of £2,157.1 at 31st September 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 31st December 2018 is shown in Table 1.

Table 1: Fund Asset Allocation

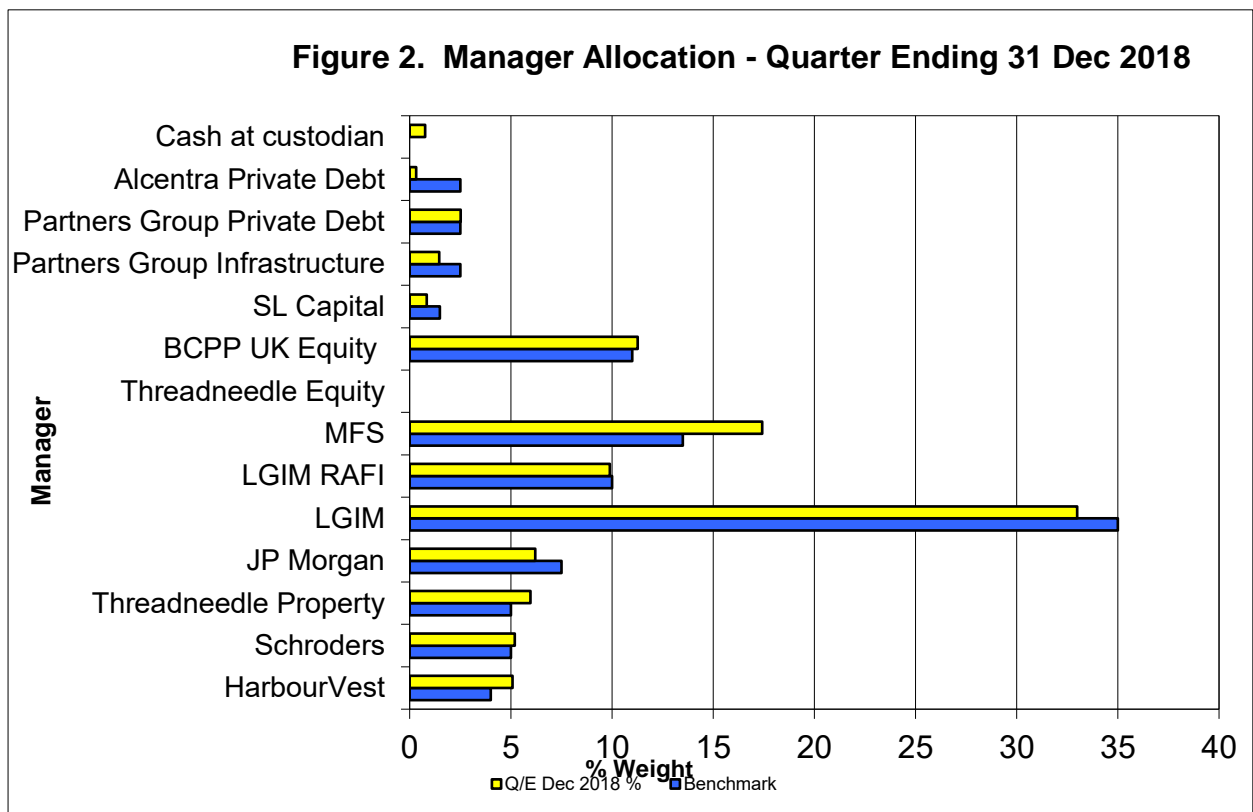
Asset Class	Q/E Sep 2018	Q/E Dec 2018	Variance Dec Qtr to Sep Qtr	Fund policy	Over/under weight
	%	%		%	%
Equity	58.3	56.7	-1.6	54.5	2.2
UK	22.8	19.1	-3.7	20.0	-0.9
Overseas	28.1	27.8	-0.3	27.5	0.3
Fundamental Global Equity	7.4	9.9	2.5	7.0	2.9
Fixed Income	15.5	15.8	0.3	15.0	0.8
UK corporate bonds	10.4	10.5	0.1	10.0	0.5
UK index linked bonds	5.1	5.3	0.2	5.0	0.3
Private Equity	4.4	5.1	0.7	4.0	1.1
Property	10.3	10.4	0.1	10.0	0.4
Absolute Return Bonds	6.1	6.2	0.1	7.5	-1.3
Infrastructure	2.0	2.3	0.3	4.0	-1.7
Private Debt	1.8	2.8	1.0	5.0	-2.2
Cash	1.6	0.7	-0.9	0.0	0.7

2.2 The fund managers' asset allocation against the benchmark for the quarter ending 31st December 2018 is shown in Table 2.

Table 2: Fund Asset Allocation by Manager

Manager	Q/E Sep 2018 %	Q/E Dec 2018 %	Variance Dec Qtr to Sep Qtr	Benchmark	Variance Dec to Benchmark
HarbourVest	4.4	5.1	0.7	4.0	1.1
Schroders	5.0	5.2	0.2	5.0	0.2
Threadneedle Property	5.5	6.0	0.5	5.0	1.0
JP Morgan	6.1	6.2	0.1	7.5	-1.3
LGIM	32.6	33.0	0.4	35.0	-2.0
LGIM RAFI	7.4	9.9	2.5	10.0	-0.1
MFS	18.2	17.4	-0.8	13.5	3.9
Threadneedle Equity	15.5	0.0	-15.5	0.0	0.0
BCPP UK Equity	0.0	11.3	11.3	11.0	0.3
SL Capital	0.8	0.9	0.0	1.5	-0.7
Partners Group Infrastructure	1.2	1.5	0.3	2.5	-1.0
Partners Group Private Debt	1.8	2.5	0.7	2.5	0.0
Alcentra Private Debt	0.0	0.3	0.3	2.5	-2.2
Cash at custodian	1.6	0.8	-0.8	0.0	0.8
Total	100.0	100.0	0.0	100.0	0.0

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



3. Fund Performance

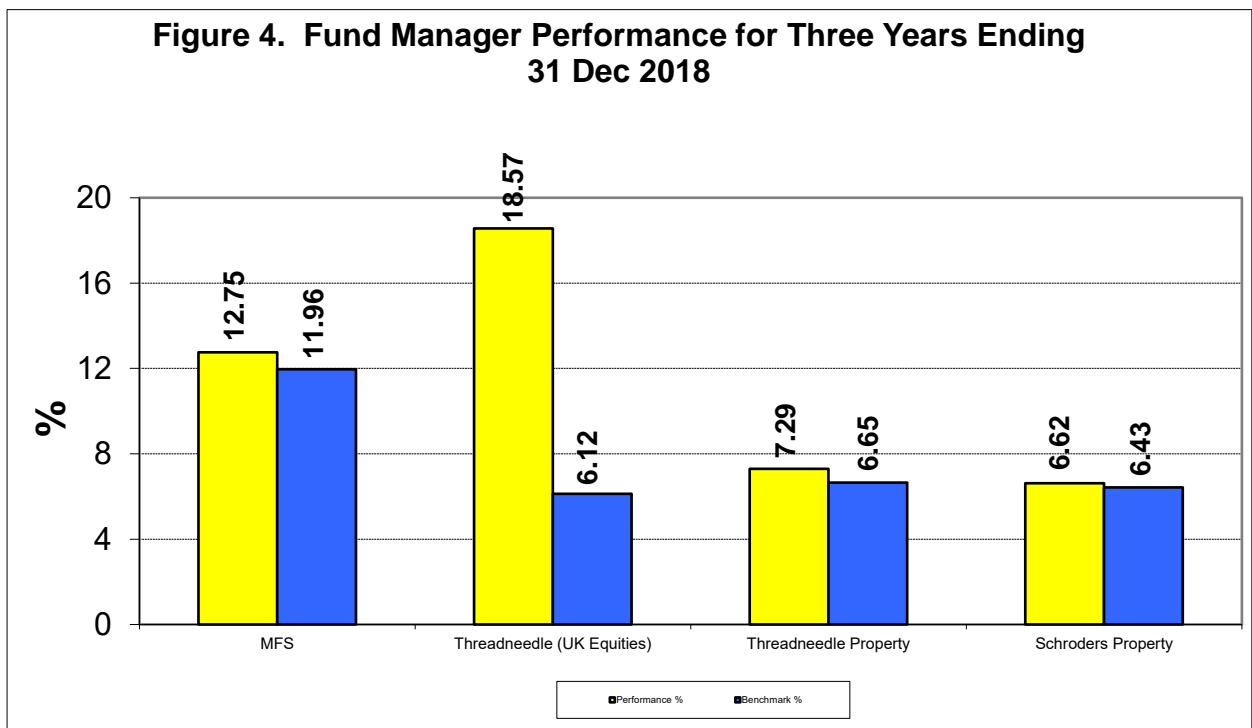
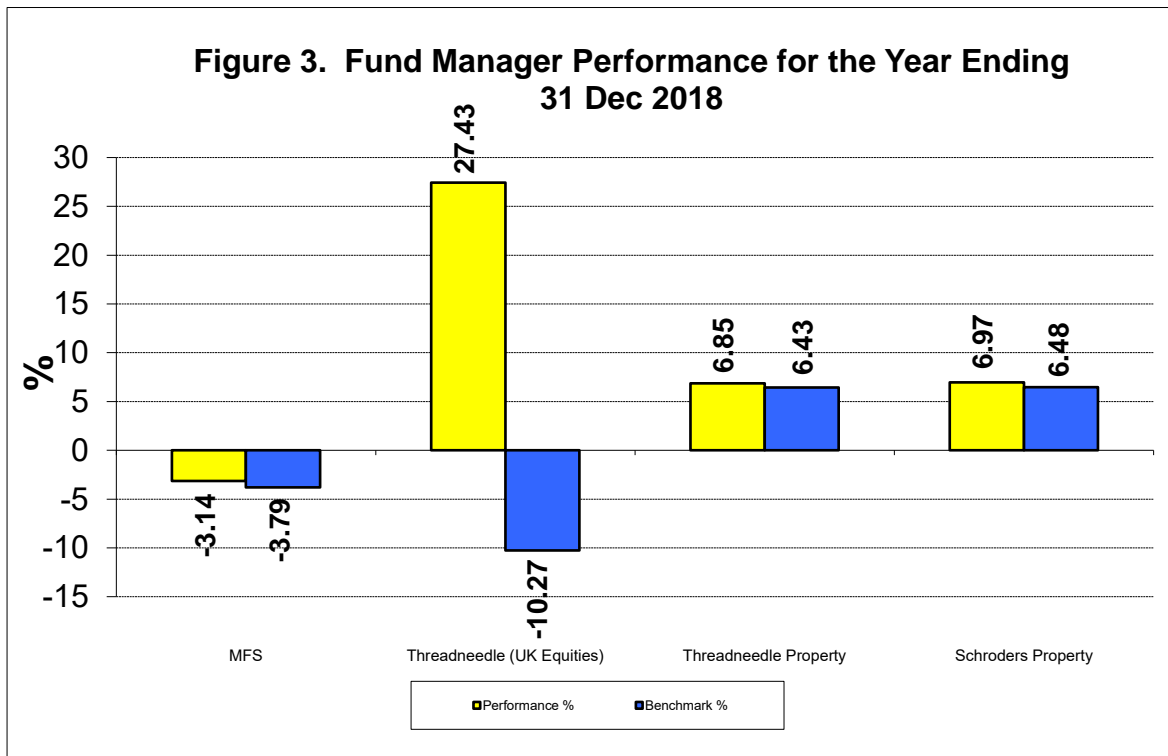
3.1 Overall the fund over-performed its overall benchmark by 0.37%. The performances of managers against their benchmarks for the quarter ending 31st December 2018 were:

Table 3: Performance by Fund Manager

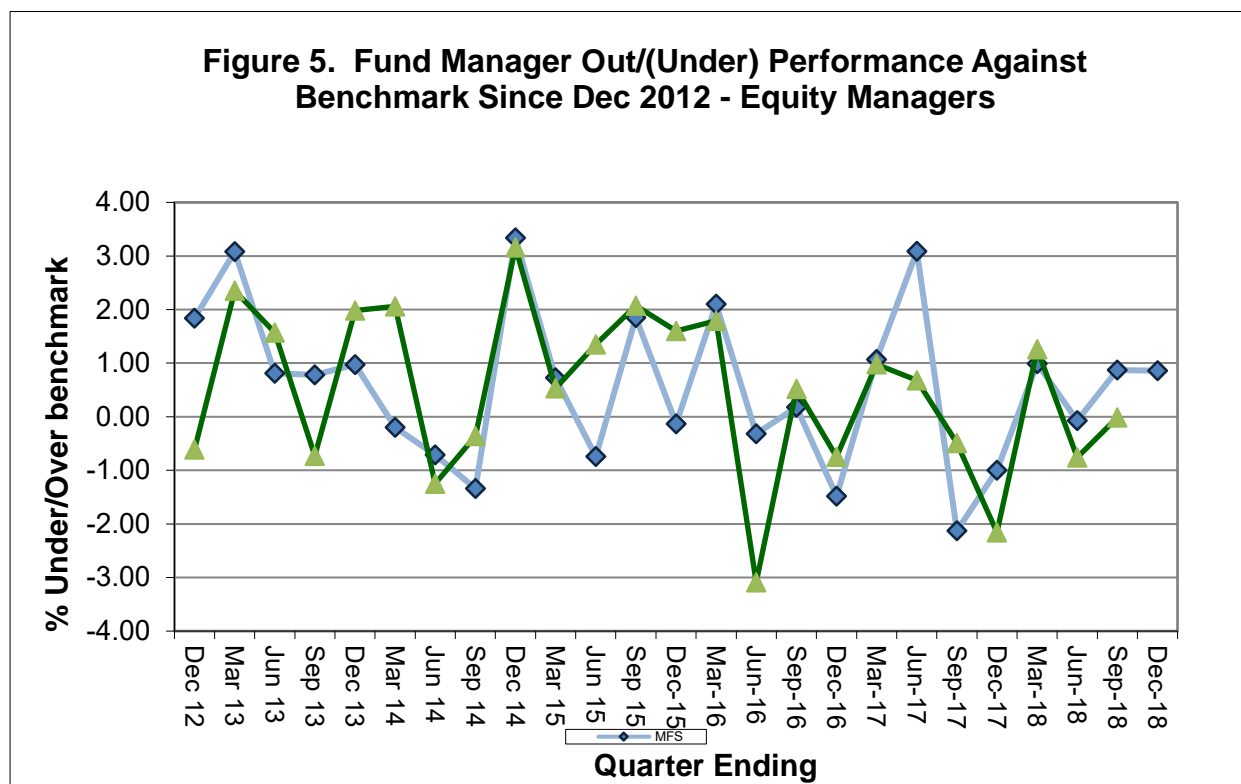
Manager	Benchmark Measure	Q/E Dec 2018	Benchmark	Variance
		%	%	%
MFS	Global Equity Benchmark	-9.81	-10.67	0.86
Threadneedle	FTSE All-Share	27.43	-10.27	37.70
Legal and General (Global Equities)	LGIM Benchmark	-9.82	-9.55	-0.27
Legal and General (Fixed Interest)	LGIM Benchmark	0.82	0.50	0.32
Threadneedle Property	Customised Benchmark	1.29	1.08	0.21
Schroders Property	Customised Benchmark	0.68	0.89	-0.21
JP Morgan Strategic Bond	Customised Benchmark	-2.87	0.18	-3.05
Total	WCC Total Fund Benchmark	-5.87	-6.24	0.37

*Note the Threadneedle UK Equity quarter 3 return figure is distorted due to the cash movements made to move into the new Border to Coast UK Equity Alpha Fund. The amount of income and interest earned over the quarter is based upon that generated by the whole fund available through the period, but the denominator is the closing balance of the fund at the end of the quarter after the transfer out, which was less than £1m.

3.2 Annualised return for the fund managers to 31st December 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	Sukhdev Singh, Principal Accountant	01926 412861 sukhdevsingh@warwickshire.gov.uk
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