

Local Pension Board of Warwickshire Pension Fund

Agenda

11 July 2017

The Warwickshire Local Pension Board will meet in **Committee Room 2, Shire Hall, Warwick** on **11 July 2017 at 13.30**.

- 1. Introductions and General business**
 - i) Apologies**
 - ii) Board Members' Disclosures of Interests** (as stipulated by the Public Sector Pensions Act 2013 and set out in Annex A of the Agreed Board Terms of Reference).
 - iii) Minutes of the meeting held on 12 January 2017**
- 2. The Role of the Pensions Regulator - Ian Colvin (Hymans Robertson)**
- 3. Chair's Annual Report**
- 4. Administration Update**
- 5. Pooling Verbal Update**
- 6. Local Pension Board Survey**
- 7. Review of the Minutes of the Pension Fund Investment Sub-Committee for 27 January 2017, 13 March 2017 and 12 June 2017**
- 8. Any other Business**

David Carter
Joint Managing Director
Shire Hall
Warwick
July 2017

Membership of the Local Pension Board

Keith Bray (Chair), Jeff Carruthers, Andy Crump, Keith Francis, Alan Kidner,
Councillor Jill Simpson-Vince and Councillor Matt Western

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**Minutes of the meeting of the
Local Pension Board of Warwickshire Pension Fund
held on 12 January 2017**

Present:

Members

Keith Bray (Chair), Jeff Carruthers, Andy Crump, Keith Francis, Alan Kidner and Councillor Peter Morson

Officers

John Betts, Head of Finance
Mathew Dawson, Treasury and Pension Fund Manager
Andrew Lovegrove, Head of Corporate Financial Services
Victoria Newbold, Senior Solicitor and Team Leader
Ben Patel-Sadler, Democratic Services Officer

Other invitees

Richard Warden, Actuary – Hymans Robertson

1. Introductions and General business

(1) Apologies

Councillor Alan Cockburn

(2) Board Members' Disclosures of Interests

None

(3) Minutes of the meeting held on 14 July 2016

Keith Bray (Chair) informed the Board that the issue of insurance cover for Local Pension Boards had arisen at the Worcestershire Pension Board. Members noted that Worcestershire's position was that the Local Pension Board was covered under the council's standard insurance policy.

Andrew Lovegrove, Head of Corporate Financial Services informed the Board that there were currently conflicting views in relation to whether or not Local Pension Boards were automatically covered by their host council's indemnity insurance. Andrew Lovegrove informed the Board that he would circulate a Briefing Note to clarify the position of the Local Pension Board of Warwickshire Pension Fund.

In relation to the LGPS being involved with reconciling data held by the Fund with that held by HMRC which related to the members Guaranteed Minimum Pension, the Board noted that this presented a significant challenge for funds to meet the 2018 deadline set by the government.

Members expressed a view that they were now clear on who was considered as employee and employer representatives on the Board.

The Board noted that attempts would be made to host some training around the role of the Pensions Regulator on the day of the next Board meeting.

The Board expressed a view that members should be granted access to all of the information being considered by the Pension Fund Investment Sub-Committee.

The minutes of the meeting of the Board held on 14 July 2016 were agreed as an accurate record for signing by the Chair.

2. Review of the Minutes of the Pension Fund Investment Sub-Committee for 12 September 2016 and 12 December 2016

The Board noted that they had been invited to attend future meetings of the Pension Fund Investment Sub-Committee – members expressed a view that they would attend future meetings wherever possible.

The Board asked a question around who was responsible for rebalancing the pension fund.

Mathew Dawson, Treasury and Pension Fund Manager informed the Board that Legal and General were responsible for rebalancing the fund. The Board requested that Mathew Dawson supplied them with a summary which would include the statement of investment principles.

A discussion took place around the merits of hedging overseas investments. Members noted that there were no definitive right or wrong methods when it came to taking decisions around investments. Investment decisions were taken after careful consideration had been given to all possible outcomes – members expressed a view that there was never 100% certainty that any investment would yield significant returns.

In relation to the issue of Brexit, Mathew Dawson informed the Board that it was unlikely that the overall investment strategy would change in the short term because of the United Kingdom's decision to leave the EU. The Board noted that significant political events were built in to the long-term investment strategy.

Richard Warden, Actuary – Hymans Robertson informed the Board that a stabilisation mechanism was applied to the precepting bodies who were members of the LGPS. Members noted that this stabilisation mechanism was used to determine the contribution rates to the scheme paid by each employer. This was utilised to ensure that the overall fund was funded correctly over the long-term.

Mathew Dawson informed the Board that ministerial approval of the Border to Coast Pension Pool had been given – a full report to Council would be considered in March 2017.

3. Update on Pooling of LGPS Funds

Mathew Dawson, Treasury and Pension Fund Manager provided the Board with a verbal update where members noted the following points:

- The Pension Pooling scheme was announced by George Osborne (then Chancellor of the Exchequer) in 2015 with the aim of reducing the number of pension schemes in operation and to encourage local authorities to invest in local infrastructure. It was also hoped that pooling would reduce costs and improve governance arrangements. In the Autumn Statement of 2016, Phillip Hammond (Chancellor of the Exchequer) announced that a total of £23 billion would be invested in innovation and infrastructure over a five year period.
- Members noted that Warwickshire had opted to join the Border to Coast Pension Pool which had a fund value of £35 billion. Border to Coast had been chosen because of its clear proposal and roadmap, good internal investment resource and the one fund, one vote scheme which it had adopted. Members noted that post 2018, the UK Equity asset class would be managed by the Border to Coast Pool. Mathew Dawson informed the Board that it was expected that Council would formally approve the Border to Coast deal in March 2017.
- By joining the Border to Coast Pool, officers would be unable to speak directly to the fund managers – this would be the responsibility of Border to Coast. Mathew Dawson informed the Board that it would be essential for Border to Coast to forge excellent client relationships with the fund managers – he was confident that this would be the case. Mathew Dawson was confident that savings on fund manager fees would be achieved by joining the Border to Coast Pool.
- The Chair expressed a view that local government pension schemes sought to secure long term, well performing investments. It would remain crucial for asset allocations to be managed effectively to secure the best possible returns on investments.
- Members noted that independent advice had been sought from a range of partners to ensure that the decision to join the Border to Coast Pool was the right one from Warwickshire's perspective.
- Members noted that the Border to Coast offices would be located in Leeds.
- The Board expressed a view that it was imperative for Warwickshire to monitor the achieved savings into the future.

Mathew Dawson informed the Board that CIPFA guidance stated that all fees paid to fund managers were required to be published.

4. Valuation Results

Richard Warden, Actuary – Hymans Robertson addressed the Board and provided members with an overview of the 2016 fund evaluation. Members noted that the fund actuary adopted a six-stage process to arrive at the 2016 valuation, which were:

- Setting assumptions
- Understanding the fund
- The national picture
- Setting employer funding strategies
- Balancing prudence and affordability
- A transparent Funding Strategy Statement (FSS)

Members noted that low interest rates were continuing to have a negative impact on financial investments. Richard Warden informed the Board that a risk based approach was adopted when calculating the future growth of the fund and did include financial uncertainties as part of the modelling process. Members noted that economic growth was likely to remain slow for a significant amount of time. This would result in more pressure on future pension costs.

Richard Warden informed the Board that because people were now living longer, adjustments would need to be made to contribution rates to ensure that the fund remained correctly funded.

Members noted that the Warwickshire Pension Fund was placed in the upper quartile of pension funds nationally in terms of its funding level.

Richard Warden informed the Board that each employer's contribution rates were set on an individual basis. If any employers withdrew from the fund for whatever reason, then it was the responsibility of the remaining employers to make up the shortfall in contributions from the departing employer. Members noted that negotiations with regards to contribution rates were fair – it was never the aim of the fund to set unmanageable contribution rates to employers and their employees.

5. Administration update including benchmarking results, complaints, breaches schedule, forum/training day, new employers and administration requirements for employers

Andrew Lovegrove, Head of Corporate Financial Services provided an update to the Board.

In relation to benchmarking, members noted that the Council was currently looking at changing the current payroll provision with a view to have a replacement available from 2018. It was anticipated that the new system would reduce charges to the Fund.

Members noted that any breaches would be reported to the Board. In future, if any employer was late in paying contributions, an e-mail would be sent reminding them of their legal responsibilities and that they were likely to be recorded as a breach and risked being reported to The Pension Regulator.

With regards to complaints, the Board noted that four complaints had been received since April 2016. Andrew Lovegrove informed the Board that when sending out pension information, processes were in place to ensure that other people participating in the fund could not be identified.

The Chair expressed a view that Local Pension Boards had experienced a difficult 18 months since they were implemented. The Chair saw the Local Pension Board as a critical friend which could be asked to assist with any tasks set by the Pension Fund Investment Sub-Committee.

6. Any other business

None

The board rose at 12.45 p.m.

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Chair

Local Pension Board of Warwickshire Pension Fund

11 July 2017

Annual Report of the Chair of the Board

1. The Public Services Pensions Act 2013 required the Administering Authority for each Local Authority Pension Scheme (LGPS) fund in England and Wales to establish a Local Pension Board no later than 1 April 2015. Subsequent Regulations issued by the Department for Communities and Local Government (DCLG) required that the boards should be operational before 1 August 2016.
2. The role of local pension boards is to assist the Administering Authority to secure compliance with LGPS Scheme Regulations and other legislation relating to the governance and administration of the fund, together with any requirements imposed by the Pensions Regulator. In short, the Board's role is to ensure the effective and efficient governance and administration of the Warwickshire Fund
3. The Regulations also require the membership of the Board to be made up of equal numbers of employer and employee representatives with a minimum of four members i.e. at least two employer representatives and two employee representatives. The employee representatives on the Board must be independent of the Fund - that is to say they must have no involvement with the day to day management of the Fund.
4. The Board may be chaired by one of these Board members or an independent, non-voting Chairperson may be appointed.
5. The Warwickshire Board was established as required by the 2013 Act and met for the first time on 28 July 2015. The membership of the Board has been as follows:-

Employer representatives

Councillor A Cockburn (Warwickshire County Council) until 23 May 2017

Councillor Jill Simpson-Vince (Warwickshire County Council) from 23 May 2017

Mr Keith Francis (The Citizens Advice Bureaux Service)

Ms Heather Costello (Warwickshire Police) until 6 Dec 2016

Mr Jeff Carruthers (Warwickshire Police and West Mercia Police) from 6 Dec 2016

Employee Representatives

Mr Andy Crump (Unison)

Mr Alan Kidner (Unison)

Councillor Matt Western (Warwickshire County Council) until 22 March 2016

Councillor Peter Morson (Warwickshire County Council) from 22 March 2016 until

23 May 2017

Councillor Matt Western (Warwickshire County Council) from 23 May 2017

Independent Chairman (Non- voting)

Mr Keith Bray (formerly Director of Financial Services at the City and County of Cardiff)

6. The Board met on two occasions during 2016/17

14 July 2016 – Full attendance

12 January 2017 – Councillor Alan Cockburn tendered his apologies for his absence

7. The Board will meet again on 11 July 2017

8. During the year the Board's work programme has covered the following areas:-

- **Monitoring and review of the Pension Fund Investment Sub Committee meetings on**

14 March 2016

13 June 2016

12 September 2016

13 December 2016

- **Monitoring and Review of Progress with regard to the pooling of LGPS funds in England and Wales.**

In last year's report reference was made to the proposal by Central Government to direct the ninety LGPS funds in England and Wales to create a small number of investment pools of £25bn+, and to encourage more investment into infrastructure. It was noted that this initiative would present all funds, including the Warwickshire Fund, with very significant challenges.

During the year the Board has monitored the Fund's progress in this area and, at the July 2016, meeting received a detailed presentation from Mr Mark Packham, of the Consultants PriceWaterhouseCoopers (PWC) setting out the rationale which had led to the decision by the Fund to join the Borders to Coast Pool which consists of thirteen funds including the Warwickshire Fund.

It was emphasised that while it was anticipated that there would be significant saving from the pooling of funds there remained uncertainty about the transition costs.

In this context, at the July meeting the Board also received a presentation from Mr Mat Dawson, Warwickshire's Treasury and Pension Fund Manager, regarding the transparency of Investment costs and fees.

- **Monitoring and review of the triennial actuarial valuation conducted by Hymans Robertson.**

At the meeting on 14 July 2016 the Board received an update on progress with the valuation from Mr Neil Buxton, Warwickshire Pension Manager. Subsequently, Mr Richard Warden, the representative of Hymans Robertson (the Fund's actuary) provided an overview of the valuation at the meeting on 12 January 2017.

- **Monitoring and review of administration of the Fund**

The Board has received updates on the administration of the Fund including benchmarking results, complaints, breaches and collaboration with other funds.

9. The members of the Board would wish to express their thanks and appreciation to the officers of the Fund for the assistance they have provided during the year.

Keith Bray

Independent Chairman

June 2017

Local Pension Board of the Warwickshire Pension Fund

11 July 2017

Administration update

Recommendation

That the Local Pension Board of the Warwickshire Pension Fund notes and comments on the report.

1.0 Introduction

1.1 This report seeks to update the Board on a number of different areas relating to the administration of the Warwickshire Pension Fund. Board members are requested to note the report and comment on any areas of interest or concern.

2.0 Benchmarking

2.1 The Fund continues to be a member of the CIPFA pension administration benchmarking club.

2.2 Latest Position

2.2.1 At the Board meeting in January it was reported that a review of the Benchmarking club was being undertaken. A revised questionnaire has been received with some minor changes about how actuarial fees are shown and local key performance indicators.

2.2.2 No further information regarding local authority pension funds being required to participate has been received.

2.2.3 The timetable for this years' submission has been issued and the questionnaire is to be submitted by 1 September and the final report expected to be released in November.

3.0 Admissions and Termination policy

3.1 The Staff and Pensions Committee approved the new Admissions and Terminations policy at its meeting on 11 June.

- 3.2 The Fund is now organising a launch of the new policy document together with template application forms.
- 3.3 The Working Together (administration guide) will also be part of this launch.
- 3.4 Draft guidance on administration of the LGPS for academies has been issued by Department for Education, Department for Communities & Local Government and the Local Government Association. The Fund has commented on this document and once the final version is available this will be circulated to all academies and made published on the website for schools thinking of academisation.
- 3.5 Links will be sent to Board Members for these documents once they are available on the Fund website.

4.0 Annual Benefit Statements

4.1 The Fund continues to work with a number of local authority pension funds in the formatting and despatch of annual benefit statements to our active and preserved members. The “club” currently consists of:

- Warwickshire Pension Fund
- Shropshire Pension Fund
- Staffordshire Pension Fund
- Cheshire Pension Fund
- Cambridgeshire Pension Fund
- Northamptonshire Pension Fund
- Bedfordshire Pension Fund
- Worcestershire Pension Fund
- Oxfordshire Pension Fund
- Surrey Pension Fund
- Derbyshire Pension Fund

4.2 Members of the “club” share ideas in formatting and composition of the statements but not all will fully participate in the printing and despatch of the statements. The Warwickshire Fund is a full member and benefits from shared printing and postage costs.

4.3 Some of the funds will also work together on the drafting of newsletters for members.

4.4 Latest Position

4.4.1 The annual statement to preserved members will have been despatched at the end of June

4.4.2 The annual statement to active members is due for despatch on 11 August

5.0 New Employers

5.1 The Fund has the following new employers:

- Holy Family Catholic Multiple Academy Trust (four academies)
- Stowe Valley Multiple Academy Trust (two academies)
- SLM (Warwick District Leisure)
- Wolston Parish Council

6.0 E-Payslips

6.1 Partly in response to requests from the Pension Fund, the County Council Payroll Services team is making available an on-line pay advice slip. Retired members will be able to register and to receive a monthly email advising them that that month's payment advice slip is available to view on-line.

6.2 It was important to the Fund that the introduction of an on-line payslip provision was not compulsory as many of our retired members may not have access to the internet. It is anticipated however, that this will change and it is hoped that more people will register for E-payslips as time goes by.

6.3 Latest Position

6.3.1 E-payslips is being launched at the end of June via the Ragged Staff newsletter.

7.0 Pensions for Elected Members

7.1 Local Authority councillors have had access to the Local Government Pension Scheme since May 2003.

7.2 Amending regulations were issued by Government which withdrew access to the LGPS to councillors. Those councillors who were contributing to the pension scheme on 1 April 2014 however, could continue to contribute and accrue entitlement until the end of that current term of office.

7.3 The County Council elections in May 2017 was the last round of local authority elections in Warwickshire following April 2014 and there are now no elected members contributing to the LGPS.

8.0 Breaches

8.1 There are no material breaches to report. The Fund has reminded all employers of the need to pay employee and employer contributions on time.

8.2 Latest Position

8.2.1 Officers have from time to time had to remind an employer to make a payment or submit a return.

9.0 Complaints

9.1 A member complained that an email containing personal information had been sent to an incorrect email address. On investigation, it was confirmed that no personal information had been attached. The member was contacted and satisfied with the response

9.2 The Fund submitted a Security Incident / Breach to the County Councils Incident Group. No further action was taken.

9.3 A review of processes has taken place and advice sought from the County Councils ICT Security Team. As a result, the Fund will be implementing Egress, a secure emailing and file transfer system.

10.0 Background Papers

None

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Report Author	Neil Buxton	neilbuxton@warwickshire.gov.uk
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Strategic Director	David Carter	davidcarter@warwickshire.gov.uk
Portfolio Holder	Cllr Alan Cockburn	cllrcockburn@warwickshire.gov.uk

SCHEME ADVISORY BOARD SURVEY OF LGPS LOCAL PENSION BOARDS

Section 1 : Compliance & Administration

Part 1

1 When did the Board first meet? (insert date DD/MM/Year)*

28/07/2015

2 How often a year is the Board required to meet?*

Twice

3 How many meetings have been held to date?*

5

4 What is the number of employer representatives on the Board?*

3

5 What is the number of employee representatives on the Board?*

3

6 How was the Chair of the Board appointed?*

Recruited after competition

7 Is the Chair of the Board remunerated?*

Yes

7a What remuneration is paid?

£5000pa

8 Are any other members of the Board remunerated?*

No

9 Are expenses paid to Board members?*

Yes

10 Is facility time given by the scheme manager to employee representatives of the Board?*

No

Part 2

11 Is there a written constitution for the Board?*

Yes

12 Does the Board have a terms of reference?*

Yes

13 Does the Board have a conflict of interest register?*

Yes

14 Do you keep a register of breaches of the law?*

Yes

15 Is there a risk register?*

Yes

16 Is there a programme for Board members to acquire knowledge and understanding?*

Yes

17 Where "YES" has been given as the answer to Questions 11 to 16, on a scale of 1 (very poor to 10 (very good), how would you evaluate :-

i) the constitution

1 10

ii) the terms of reference

1 10

iii) the conflict of interest register

1 10

iv) the register of breaches

1 10

v) the risk register

1 10

vi) the knowledge and understanding programme

1 10

18 Is personal liability or indemnity insurance available to Board members?*

Yes

19 Is the Board compliant with guidance issued by the Scheme Advisory Board?*

Yes

20 If the answer to Question 19 is "No", give reasons below :-

21 Give up to three examples where you think the Board is working well :-

22 Give up to three examples where you think the Board could improve what it does:-

Section 2 : Operation and Working Relationship

23 On a scale of 1 (very poor) to 10 (very good), how would you evaluate :-

i) the relationship between the administering authority and the board?

1 10

ii) the relationship between the pensions' committee and the board?

1 10

iii) the board's ability to identify non-compliance with legal requirements?

1 10

iv) the board's ability to make recommendations to the administering authority when non compliance has been identified?

1 10

v) the administering authority's response to any such recommendations?

1 10

vi) the effectiveness of communication between the administering authority, pensions' committee and the board?

1 10

vii) the knowledge and understanding programme available to the board?

1

10

24 Has the administering authority in any capacity attended any local pension board meetings?*

Yes



25 In the last 12 months, have any breaches of the law been identified by the local pension board?*

No



26 Who is responsible for agreeing the agenda for local pension board meetings?*

The Chairman

27 Have any local pension board meetings not been quorate?*

No



28 Is voting a regular feature of local pension board meetings?*

No



29 Does the local pension board have a webpage on the administering authority's web site?*

No



30 Does the local pension board have a workplan?*

No



31 Has the local pension board agreed any success measures/KPIs for its work?*

No



32 Has the local pension board produced an Annual Report?*

Yes



33 Are the local pension board's papers agenda, papers, etc, available on the board's webpage?*

No



34 Does the local pension board have control of a budget?*

Yes



35 If it has a budget, can it be used to access independent external advice?*

Yes



36 Does the local pension board have access to internal and external audit reports?*

No



37 Describe below any ways in which you think the working relationship between the administering authority, pensions' committee and the board could be improved.

38 Use the space below to comment on any other aspect of the new governance arrangements that you consider to be relevant.

39 Please confirm the capacity in which you are completing this survey*

Local pension board chair



40 Please confirm the name of the organisation/pension board you represent*

Warwickshire Local Pension Board

**Minutes of the Pension Fund Investment
Sub-Committee meeting held on 27 January 2017**

Present:

Members

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

Officers

Mathew Dawson - Treasury and Pension Fund Manager
Andrew Lovegrove - Head of Corporate Financial Services
Ben Patel-Sadler - Democratic Services Officer
Jane Pollard – Legal Services Manager

Invitees

Karen Shackleton – Independent Investment Adviser

Observers

None

No members of the public attended.

1. General

(1) Apologies for absence

Peter Jones – Independent Investment Adviser

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

None

(3) Minutes of the previous meeting held on 12 December 2016

The minutes of the meeting held on 12 December 2016 were agreed as a true and correct record and were signed by the Chair.

2. Any other items

Mathew Dawson - Treasury and Pension Fund Manager provided the Sub-Committee with an update in relation to pooling. Members noted that the pooling steering group were meeting on 31 January to approve the appointments process in relation to appointing a chief executive of the pool. The Sub-Committee noted that because the role of pool chief executive was entirely new, discussions were ongoing to determine what level of salary was appropriate for the role. This was to be a very specialised role with very specific attributes required from potential candidates – concerns had been raised that there may be a shortage of appropriately skilled individuals nationally to fill all of the pool chief executive positions.

Members noted that workstreams covering governance, people and a potential operating model were continuing to function and would be reporting back to the

steering group on 31 January. A full pooling report would be submitted to council in March 2017.

3. 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’

4. Exempt Minutes of the meeting held on 12 December 2016

5. Trade Finance - Markham Rae Trade Capital Partners I

The meeting rose at 11.30 am

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Chair

**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

**Minutes of the Pension Fund Investment Sub-Committee
meeting held on 12 June 2017**

Present:

Members

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

Officers

John Betts – Head of Finance

Mathew Dawson - Treasury and Pension Fund Manager

Chris Norton – Strategic Finance Manager

Ben Patel-Sadler - Democratic Services Officer

Jane Pollard – Legal Services Manager

Invitees

Emily Archer – Harbourvest

Kathleen Bacon - Harbourvest

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

None

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

None

(3) Minutes of the previous meetings held on 13 March 2017 and 23 May 2017

The minutes of the meetings held on 13 March 2017 and 23 May 2017 were agreed as true and correct records and were signed by the Chair.

2. Investment Performance

Mathew Dawson – Treasury and Pension Fund Manager introduced the report and informed the Sub-Committee that investments had been performing well over the previous three years.

Members noted that at the quarter end March 2017, the Fund had outperformed its benchmark by 0.66%.

The Sub-Committee expressed concern that a large proportion of the Fund's total value was invested with Legal and General. Paul Potter – Hymans Robertson informed the Sub-Committee that the relevant legal agreement between the Fund and Legal and General would likely protect the Fund against significant financial losses.

Resolved:

The Sub-Committee noted the fund value and investment performance for the final quarter of 2016/17 to 31 March 2017 and requested that checks were made to ensure that the correct legal agreements were in place between the Fund and Legal and General.

3. Cash Flow Report

Mathew Dawson – Treasury and Pension Fund Manager introduced the report and informed the Sub-Committee that the Fund was currently holding an amount of cash which could be drawn down if required.

The Sub-Committee noted that only a certain proportion of the Fund's investments could be used to draw down cash – the Fund's deficit management plan sought to forecast any possible future cash flow issues.

Resolved:

The Sub-Committee noted the report.

4. The 2016 Actuarial Valuation

Richard Warden – Hymans Robertson introduced the report and informed the Sub-Committee that the 2016 actuarial valuation had been finalised – the report was issued by the 31 March 2017 statutory deadline.

Members noted that recent legislation had effectively ensured that the government would guarantee the financial stability and obligations of academies.

Resolved:

The Sub-Committee noted the report.

5. Review of Pension Fund Risk Management

Mathew Dawson – Treasury and Pension Fund Manager introduced the report and informed the Sub-Committee that risks had been added to the risk register to acknowledge the potential change to the Fund's investor status under MiFID II, poor returns as a result of new asset pooling arrangements and inadequate

governance arrangements within BCPP leading to poor investment decision making.

The Sub-Committee noted that stricter controls had been implemented to help protect the Fund from employers who may become insolvent.

Members noted that the Fund Managers themselves were primarily responsible for presenting truthful and accurate investment return figures. Further checks and balances in this area were also undertaken by the Council's external auditors, the Custodian and monitoring by the Fund's officers.

Karen Shackleton – Independent Investment Adviser expressed a view that a risk should be placed on the register to reflect the possible infiltration of fund managers' IT systems – it would be prudent to ask fund managers what procedures were in place to protect their systems.

Resolved:

The Sub-Committee approved the Register of Risks, as outlined in Appendix A of the report, and approved the process by which this had been compiled.

6. Markets in Financial Instruments Directive Presentation

Paul Potter – Hymans Robertson presented the slides to the Sub-Committee.

Resolved:

The Sub-Committee noted the contents of the presentation and requested that the County Council writes to the relevant fund managers to ask what procedures they are putting in place to address the MiFID II implementation date and of any possible implications to the Warwickshire Fund.

7. Any other items

None

8. 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'

The meeting rose at 12.45 pm

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Chair