

**Minutes of the Pension Fund Investment Sub-Committee
meeting held on 12 March 2018**

Present:

Members

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

Officers

John Betts – Head of Finance
Mathew Dawson - Treasury and Pension Fund Manager
Aneeta Dhoot – Senior Finance Officer
Chris Norton – Strategic Finance Manager
Jane Pollard – Legal Services Manager
Ben Patel-Sadler - Democratic Services Officer

Invitees

Lyndon Bolton - Schroders
Ben Farmer – Hymans Robertson
Emma Garrett – Hymans Robertson
Naomi Green - Schroders
Peter Jones – Independent Investment Adviser
Sandro Lunghi - Inalytics
Graeme Rutter – Schroders
Karen Shackleton – Independent Investment Adviser
Richard Warden – Hymans Robertson

Observers

Alan Kidner (Warwickshire Local Pension Board)

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 18 December 2017

Members requested that the following be noted in relation to the minutes:

On page two of the minutes, members noted that MJ Hudson had carried out legal and operational due diligence work in relation to the appointment of the private debt managers.

The minutes of the meeting held on 18 December 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 members that performance in the third quarter of 2017/18 to 31st December 2017 had been good.

Members noted that the fund had increased in value by 3.12% on the previous quarter and stood at a current value of over £2 billion.

Mathew Dawson highlighted recent asset allocation changes which included the strategic asset allocation to Fundamental Global Equity increasing by 2%.

Members noted that the fund had now sold out of UK gilts and had sold the hedge fund investment with Blackstone. In relation to the withdrawal of the fund's hedge fund investments, members noted that 95% of this investment had been returned in cash, with the remaining 5% expected to be paid out in summer 2018. This cash return had been used to top up the JP Morgan Unconstrained Global Bond Fund.

The Sub-Committee expressed a view that the decision to withdraw from hedge funds had been a prudent one given future pooling requirements.

Members noted that the balancing of the fund's Asset Classes was an ongoing exercise.

Mathew Dawson informed the Sub-Committee that the fund was currently holding a total of 5% cash, which was slightly high, but was not a cause for concern as this cash would be used to fund the two new private debt mandates.

The Sub-Committee noted that the fund's managers were performing well.

Although the fund had under-performed its overall benchmark by 0.31% for this quarter, medium and long-term performance had been good. An analysis of three year performance had shown that fund managers had outperformed their respective benchmark.

The Sub-Committee noted that the fund had a blended benchmark – market returns determined an appropriate benchmark which performance was then measured against.

Mathew Dawson informed the Sub-Committee that the underperformance of Threadneedle in this quarter had been attributed to an underweight position in the oil sector and other normal market cycles, so this was not an undue cause for concern.

Members noted that in relation to the fund's investments in property, managers had reverted to bid-pricing after Brexit in order to protect investments in this sector.

Ben Farmer – Hymans Robertson provided a brief verbal update to the Sub-Committee.

Members noted that there had been a great deal of movement in the markets since the end of December 2017. Strong economic data from the United States in February 2018 had led to a fear of interest rate rises which had a negative impact on equity markets. The Sub-Committee noted that these market fluctuations needed to be judged in context – the falls in February 2018 had only resulted in the markets falling to September 2017 levels. Members noted that the markets were now steadily recovering. The equity market fluctuations should be classed as ‘corrections’ and not a crash.

Peter Jones – Independent Investment Adviser informed the Sub-Committee that the US markets had tripled since 2009/10.

Resolved

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

The Sub-Committee requested that information relating to the four stocks around the 1% mark be provided.

3. Business Plan

Chris Norton – Strategic Finance Manager introduced the report and informed the Sub-Committee that the Business Plan encompassed key activities that needed to happen during the year and which officers and committees are responsible for. These were outlined at 2.1 of the covering report.

In relation to the work of the Pension Fund Investment Sub-Committee, there were 12 actions attributed which were outlined in the appendix to the covering report.

Members noted that it was important for the Sub-Committee to undertake all relevant training in relation to the functions which it must perform. Correct completion of training for members would ensure that the Sub-Committee remained compliant with MIFID II regulations.

In relation to the forthcoming entry of the fund into the Border to Coast Partnership, members noted that the new code would ensure that all fees were transparent. The Sub-Committee noted that some fund managers had begun to lower their fees to ensure that they would remain competitive with the lower fees being offered by Border to Coast.

Karen Shackleton – Independent Investment Adviser informed the Sub-Committee that in relation to the transparency code, the templates had been completed for some Border to Coast Asset Classes. Karen Shackleton advised the Sub-Committee that it would be important for a standing agenda item in relation to pooling to be considered at each meeting once Border to Coast had gone live.

Discussions took place to determine the feasibility of members being provided with a forecast of current and future fund liabilities and revenue streams. Members felt that this would enable them to have an overview of any potential future funding risks.

Members of staff from Hymans Robertson informed members that short and long-term fund forecasting could be completed on request.

Resolved

That the Sub-Committee approves the proposed Business Plan as outlined in Appendix A of the report and;

- 1.) The Sub-Committee requested that a briefing note be provided to summarise how much the fund costs to administer internally and;
- 2.) The Sub-Committee requested a copy of the CIPFA benchmarking report which would indicate the costs of running other comparable funds.
- 3.) The Sub-Committee agreed that pooling would become a standard agenda item once Border to Coast had gone live.

4. Training Plan 2018-19

Emma Garrett – Hymans Robertson introduced the report and informed members that they would be required to undertake appropriate training in order to maintain their professional investor status. This training would need to be documented upon completion. The attached document outlined the proposed training plan for members.

Members expressed a view that the proposed training day in May 2018 was appropriate in terms of its content and format and agreed with the proposals for future training as outlined in the appendix to the report.

The Sub-Committee expressed a view that training topics should be prioritised so that the most important and relevant topics were covered.

Mathew Dawson informed the Sub-Committee that risk management should always be considered at every meeting as it remained the most important part of the role as a Sub-Committee member.

Members noted that future training would be tailored to MIFID II requirements.

Resolved

That the Sub-Committee approves the training plan as outlined in Appendix A of the report.

5. Investment Strategy Statement

Mathew Dawson - Treasury and Pension Fund Manager introduced the report and informed members that this was the second draft of the Investment Strategy Statement. Essentially, this document was a high level guide in relation to the fund's Asset Allocations.

Members noted that a 30 page review of Asset Allocations had been completed to formulate the attached document.

Members were directed to the Asset Class table which was the most significant part of the document. The table showed that the strategic allocation to private debt was 5% and that there were no current investments in the hedge funds sector.

In relation to fund managers, members noted that Blackstone was no longer employed by the fund.

Members noted that the investment guiding principles were now attached as an appendix to the Strategy.

The Sub-Committee noted that the investment decisions taken by the fund managers could be justified by members referring to the investment principles as outlined in the appendix to the report.

John Betts – Head of Finance informed members that the Sub-Committee did undertake practical work on a periodic basis which included the scrutiny of individual investment decisions and investment strategy decisions. This formed part of the three year investment strategy.

Resolved

That the Sub-Committee approves the revised Investment Strategy Statement as outlined in Appendix A of the report and;

1.) Requested that further work be undertaken with Hymans Robertson to consider periodic summaries of the fund to be provided to the Sub-Committee so that members are able to gauge the financial health of the fund on a regular basis.

6. UK Property - presentation by Schroders

Officers from Schroders provided a presentation to the Sub-Committee where the following points were noted by members:

- Schroder Real Estate Capital Partners (SRECaP) had £3.7 billion in real estate mandates under management as at 31 December 2017.
- This was a long term Schroders strategy which had been operating since 1997.
- There were seven SRECaP Partnership funds controlled by Schroders.
- The total returns of the SRECaP Partnership funds to end December 2017 had all outscored their benchmarks. Multi-Let Industrial funds had not achieved their benchmark – this was due to the initial set up costs in this sector.

- The long term performance of investments in this area was good.
- Funds invested in Greater London property had performed well.
- Funds invested in property in the UK but outside of London had performed well. This was in part due to significant overseas investors choosing to invest outside of the capital.
- There had been an increase in rents charged due to the reduction in available retail space.
- A growth in the online retail sector had resulted in an increased demand for industrial (distribution space). The rental sector in this area was strong.
- Average returns on investments in this real estate sector were between 4%-5%.
- Warwickshire County Council's portfolio valuation currently stood at £100,885,093 (17 investments in total). 3.3% (£3,286,785) of the portfolio was held in cash.
- Alternative real estate investments had been made in the UNITE UK Student Accommodation Fund and the Local Retail Fund in anticipation of good investment returns.
- Schrodgers were looking at investing in the real estate debt sector as it presented attractive risk adjusted returns.

Members noted that cash drag was a feature of all investment portfolios, but attempts were always made to hold as little of the investment as possible in cash (due to poor returns).

The Sub-Committee noted that land owners would on average, hold land for a period of 8-10 years before selling it on. New investment strategies found benefit in acquiring land and then selling on to developers in a much shorter period of time (around 30 months) in order to maximise return (in relation to Residential Land Partnership investments).

Residential Land Partnership investments were completed on a deal by deal basis with a preference of completing sales in a single transaction.

An increase in development in London had resulted in an excess of office space. High London property purchase prices and rents were resulting in investors and clients moving to locations outside of the capital.

Mathew Dawson informed the Sub-Committee that real estate was complex with regards to future pooling and that the transition to a BCPP sub-fund would take time and would be a gradual exercise.

Members noted that overall, the success of real estate investment was attributed to decisions made as to when to buy and sell.

Karen Shackleton – Independent Investment Adviser informed the Sub-Committee that the performance benchmarks being used by Schrodgers were acceptable.

Resolved

That the Pension Fund Investment Sub-Committee notes the content of the presentation.

7. Equity Managers Performance - presentation by Inalytics

Sandro Lunghi – Inalytics provided a presentation to the Sub-Committee in relation to the investment analysis services provided to the Warwickshire Pension Fund.

Members noted the following points during the presentation:

- Quantitative assessments of investments made on behalf of the fund could be analysed to determine if investment decisions had been successful.
- The number of buys and sells undertaken by fund managers were measured against investment returns to determine if they had been profitable overall.
- Threadneedle for example, had a low turnover of investments
- Inalytics would assess investments held for long periods of time to determine if they were providing a return, stagnating or depreciating in value. If stagnant investments were being held by managers for long periods then this needed to be questioned.
- Fund managers would hold a portfolio of investments – some would be profitable and some would not. The key to successful investment was for the profitable investments to secure acceptable returns (over and above the less successful investments in the portfolio).
- Traditionally, selling stock was rarely as profitable as securing investment in a profitable venture. Selling stock, even at a loss, was usually undertaken in order to release cash to invest in a potentially more profitable sector/company.

- The work undertaken by Inalytics could identify underperforming fund managers.

Resolved

That the Pension Fund Investment Sub-Committee notes the content of the presentation.

8. Any other items

John Betts – Head of Finance informed the Sub-Committee that Mathew Dawson - Treasury and Pension Fund Manager would shortly be leaving the authority to take up a position with the Border to Coast Partnership. Although Mathew would be returning periodically to Warwickshire as part of his role with Border to Coast, he would be missed greatly by officers and members. John Betts wished to place on record his thanks to Mathew for all of the work he had undertaken on behalf of the Pension Fund. The success of the fund could be attributed to the work of Mathew and his team. Councillor Bob Stevens (Chair) also wished to place on record his thanks to Mathew for all of the work he had undertaken for the Sub-Committee recently and over previous years.

9. 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’.

10. Exempt Minutes of the Meeting held on 18 December 2017

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

11. Actuarial Services

Mathew Dawson updated the Sub-Committee on the outcome of the Actuarial Services tender process that had been recently completed. Details of this update are set out in the exempt minute.

The meeting rose at 12.45 pm

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Chair