

Local Pension Board of the Warwickshire

Pension Fund

8 July 2019

Review of the Papers of the Pension Fund Investment Sub-Committee meetings held on 13 March and 10 June 2019

1.0 Introduction

- 1.1 This report introduces the Pension Fund Investment Sub-Committee (PFISC) public papers for note and comment.
- 1.2 These papers are in relation to the Committee meetings held on 13th March 2019 and 10th June 2019.
- 1.3 The report covers:
- Draft Minutes of the public meeting for March 2019 (Appendix 1) and July 2019 (Appendix 4)
 - Investment Performance Report for Q2 2018/19 (Appendix 2) and Q3 2018/19 (Appendix 5)
 - Draft Forward Plan for March 2019 (Appendix 3) and June 2019 (Appendix 6)

2.0 Financial Implications

2.1 None for this Board

Background papers

None.

	Name	Contact Information
Report Author	Michael Nicolaou	michaelnicolaou@warwickshire.gov.uk 01926412227
Head of Service	Liza Kitto	01926 412441 lisakitto@warwickshire.gov.uk
Strategic Director	Rob Powell	01926 412564 robpowell@warwickshire.gov.uk
Portfolio Holder	Councillor Peter Butlin	cllrbutlin@warwickshire.gov.uk

The report was not circulated to members prior to publication

Appendix 1

Minutes of the meeting of the Local Pension Board of Warwickshire Pension Fund held on 5 March 2019

Present:

Members

Councillor Parminder Singh Birdi, David Buckland, Keith Bray (Chair), Keith Francis and Alan Kidner

Officers

Helen Barnsley, Democratic Services Officer
Sarah Cowen, Senior Solicitor
Michael Nicolaou, Treasury and Pension Fund Manager
Chris Norton, Strategic Finance Manager
Jane Pollard, Legal Services Manager

1. Introductions and General business

(1) Introduction to David Buckland (Stratford District Council) – New Employer Representative

The Board welcomed David Buckland to his first meeting as the new employer representative. It was noted that there is still a vacancy for an employee representative.

(2) Apologies

Councillor Dave Parsons
Neil Buxton, Pensions Manager

(3) Board Members' Disclosures of Interests

The Chair stated that he was an Officer of the Local Authority Pension Fund Forum and also worked for American lawyers who had pension fund clients but these did not include Warwickshire. Alan Kidner stated that his sister-in-law worked for J.P. Morgan. It was recognised that these were unlikely to present any issues but still worthy of recording.

(4) Minutes of the meeting held on 27 November 2018

The Board agreed that the minutes of the Regulatory Committee meeting held on 27 November 2018 be signed by the Chairman as a true and accurate record.

Under matters arising it was agreed as a point of clarification that information from the PFISC meetings exempt parts will be presented to the board where appropriate and not routinely. The Chair asked if the minutes from Local Pension Board meetings should be shared with the PFISC. It was agreed that Chris Norton and Jane Pollard would discuss this outside of the meeting but national clarification on the matter was expected in due course.

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

The minutes were reviewed by the board and the following points of clarification were made;

- The scheme of delegation allows signatures on transfers of transactions without having to wait for a committee meeting.
- Investment through Threadneedle would use 10% of funds to invest in property debt
- In relation to investment performance, a request was made that information is provided in the annual report on the 1.51% growth – how much is from new contributions and how much is from growth.

It was agreed that the board would ask, via the PFISC, which overseas markets are being invested in? How much is being invested overseas?

3. Pension Fund Administration Update

Chris Norton, Strategic Finance Manager presented the report to the board with the following highlights;

- The new pension website is up and running. Feedback, so far, has been positive.
- Six new academies have joined the scheme and several businesses have exited the scheme
- The Chair requested more detailed information in relation to the performance indicators is individual cases affect the figures.
- Following a question relating to death in service payments it was agreed that Chris Norton will confirm if the payment is standard or pro-rata.
- Following a question from Alan Kidner in relation to staffing levels, it was confirmed to the board that resources will need to be reviewed but at the moment they are being well managed.

- Recent changes in membership are reflected across England; with the biggest change coming mainly from the introduction of academies.
- It was confirmed that Chris Norton will provide details on how fund inputs are calculated and what is included in the original input.

4. Risk Register

Keith Francis noted that the report was a detailed and comprehensive document on risks to the pension fund. It was noted that this was not a document that would be used every day but it is a point of reference that is very useful to board members.

Concern was raised in relation to the high turnover of staff over the last 12 months in comparison to previous years. Officers confirmed that future recruitment and retention was being actively discussed but it was likely that temporary staff will be needed.

The board wished it to be noted that any current recruitment holds at Warwickshire County Council should not apply; the Local Pension Board is not part of the council just the administrating authority.

5. MIFID2 Update

It was confirmed to the board that the professional status standard had been met and that training would be offered to both the local pension board and the PFISC.

6. 2019-20 Business Plan

The report was presented to the board with the main objectives of the business plan highlighted;

- Ensure that funds are available to pay member pensions when they are due
- Ensure that pensions are paid accurately and on time when they are due

7. Local Pension Board Forward Plan

The board noted the forward plan and was invited to add items to the work programme. The Chair requested that training sessions were added for both the board and the PFISC.

Alan Kidner requested that an item was added in relation to climate change and the risks associated with it. It was confirmed that this would be covered in a future training session.

A key point noted by the board was that the policy states that decisions must be made to pay decisions correctly and that decisions should be made responsibly.

8. Border to Coast Responsible Investment Policy

It was confirmed to the board that the document has now been published on the Border to Coast website and that investment choices are the responsibility of each individual fund.

9. Any other business

The Chair wished it to be noted on behalf of all the board his thanks to all the officers for their support, guidance and detailed reports

10. Next Meeting

Monday 8 July 2019 @ 10am (Committee Room 2, Shire Hall)

The board rose at 4.18pm

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Chair

Appendix 2

Pension Fund Investment Sub Committee

11th March 2019

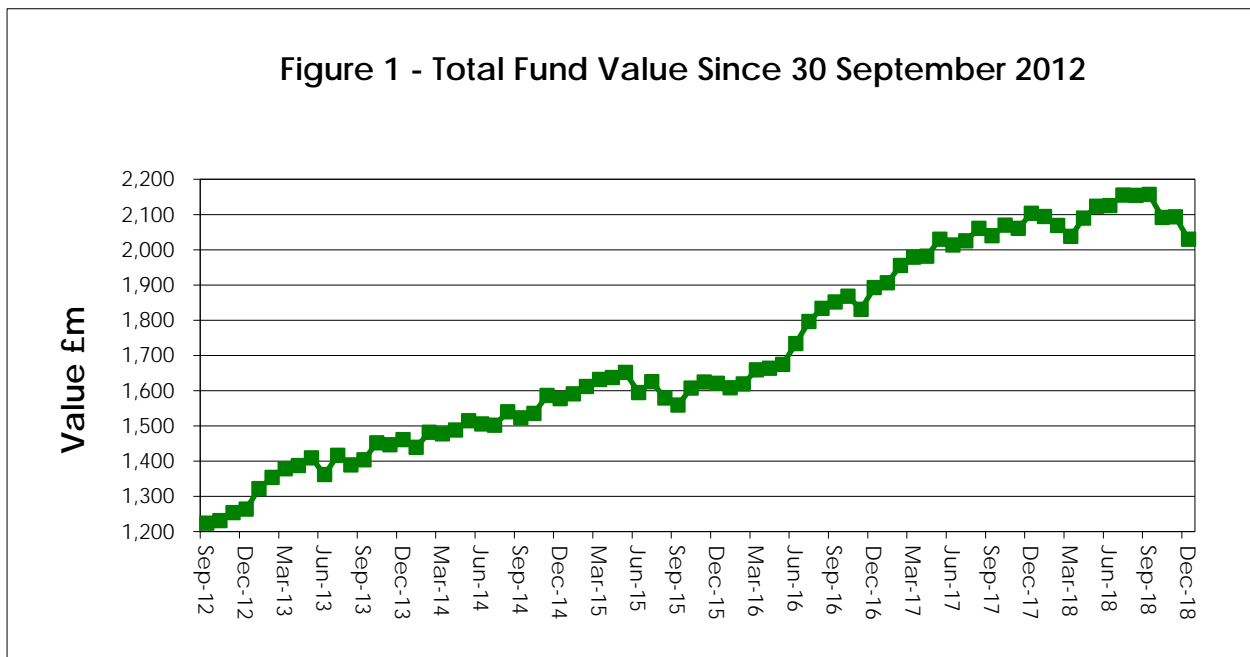
Investment Performance

Recommendation

- (1) 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

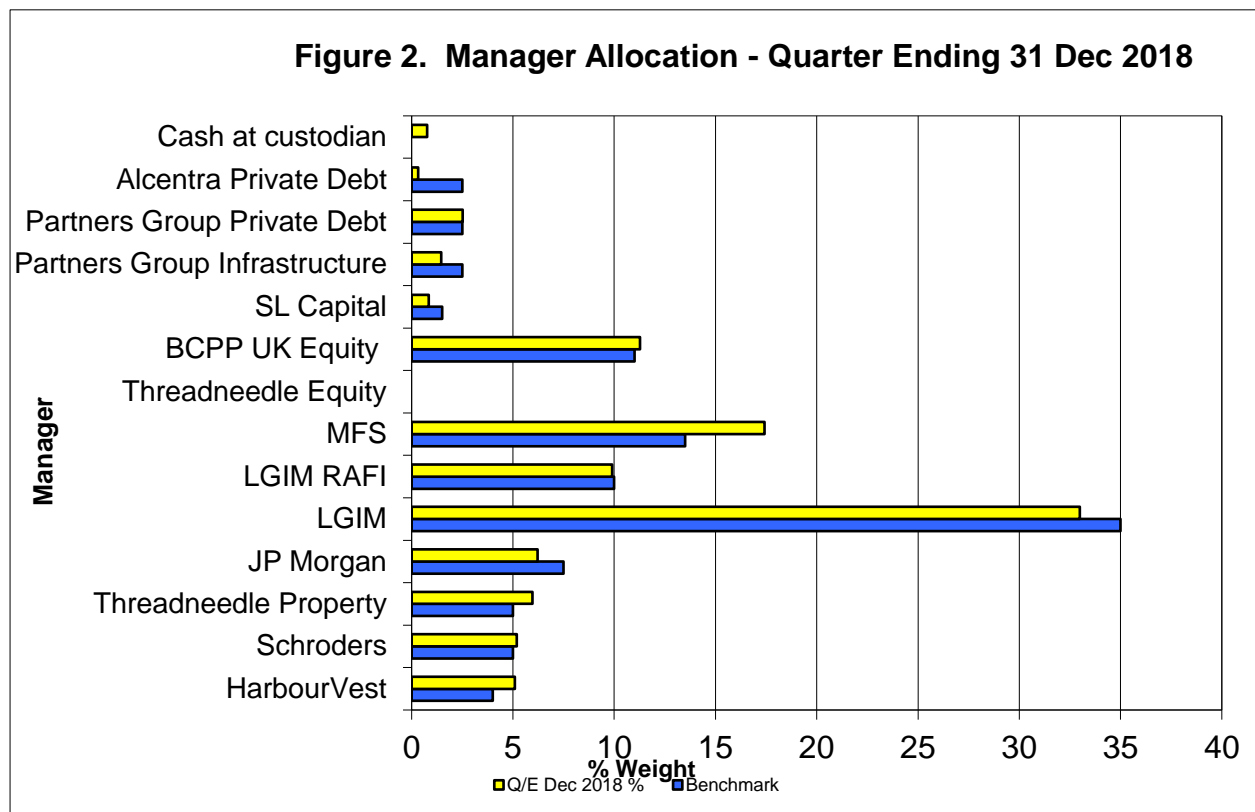
Asset Class	Q/E Sep 2018	Q/E Dec 2018	Variance Dec Qtr to Sep Qtr	Fund policy	Over/under weight
	%	%		%	%
Equity	58.3	56.7	-1.6	54.5	2.2
UK	22.8	19.1	-3.7	20.0	-0.9
Overseas	28.1	27.8	-0.3	27.5	0.3
Fundamental Global Equity	7.4	9.9	2.5	7.0	2.9
Fixed Income	15.5	15.8	0.3	15.0	0.8
UK corporate bonds	10.4	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

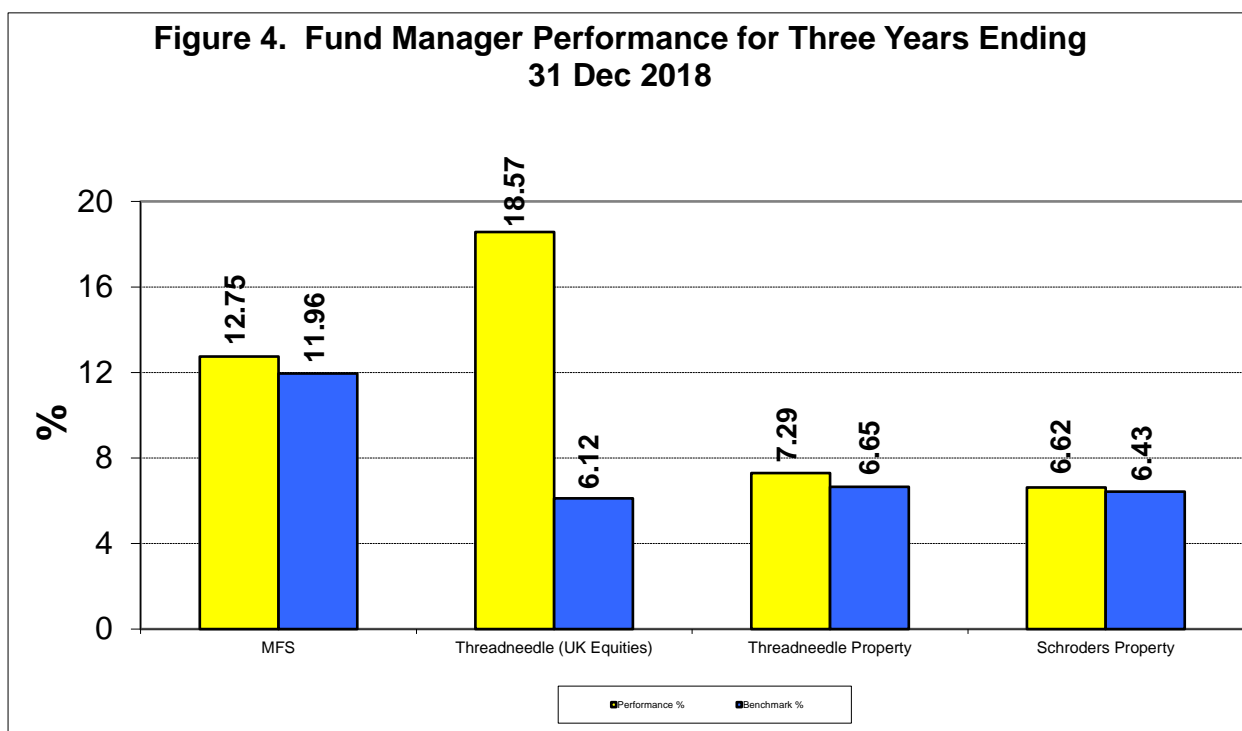
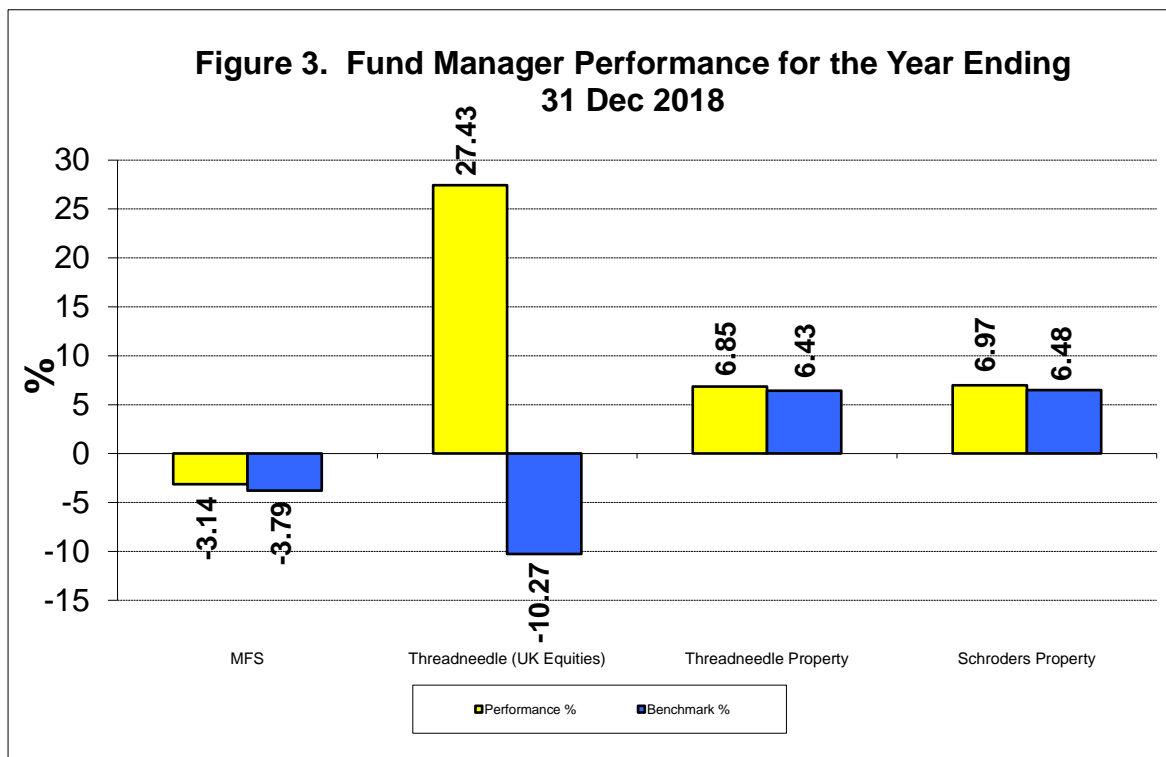
3.1 Overall the fund over-performed its overall benchmark by 0.37%. The performances of managers against their benchmarks for the quarter ending 31st December 2018 were:

Table 3: Performance by Fund Manager

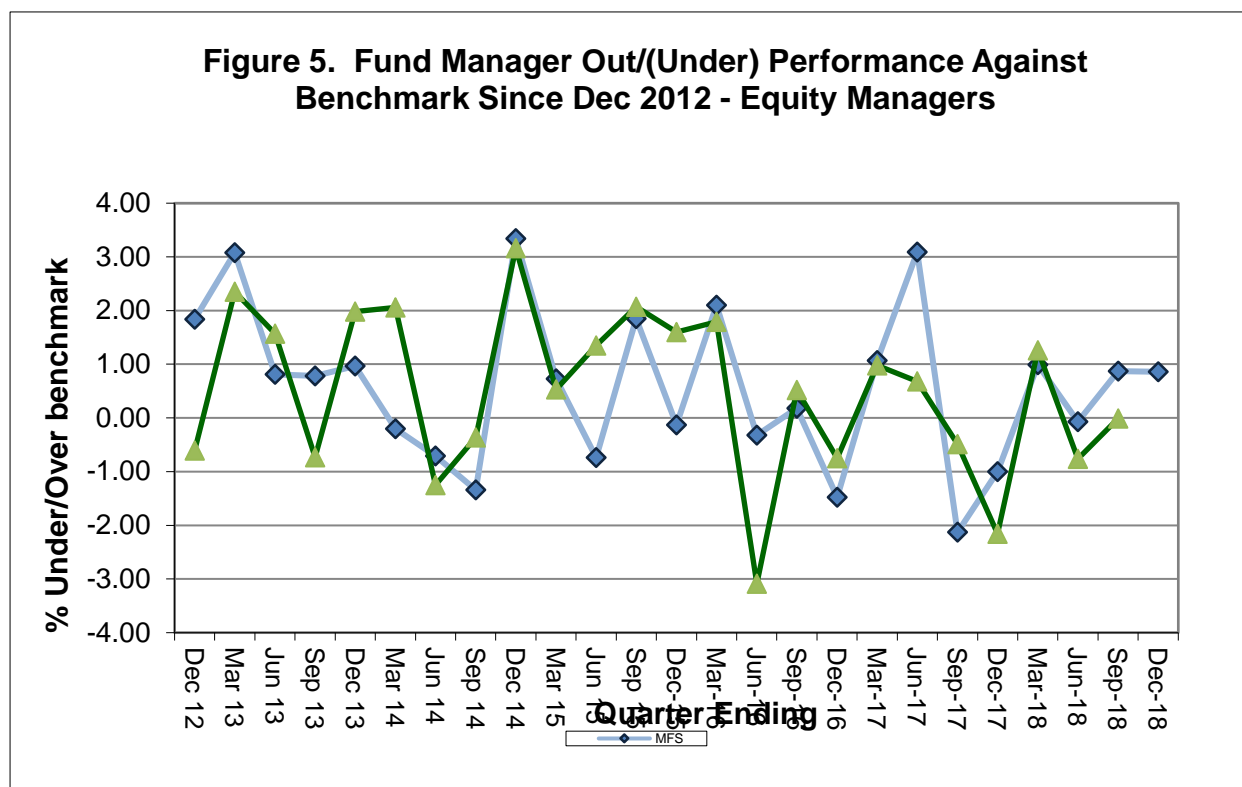
Manager	Benchmark Measure	Q/E Dec 2018	Benchmark	Variance
		%	%	%
MFS	Global Equity Benchmark	-9.81	-10.67	0.86
Threadneedle	FTSE All-Share	27.43	-10.27	37.70
Legal and General (Global Equities)	LGIM Benchmark	-9.82	-9.55	-0.27
Legal and General (Fixed Interest)	LGIM Benchmark	0.82	0.50	0.32
Threadneedle 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.



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Joint Managing Director (Resources)	David Carter,	01926 412564 davidcarter@warwickshire.gov.uk
Portfolio Holder	Peter Butlin	cllrbutlin@warwickshire.gov.uk

Appendix 3

Pension Fund Investment Sub Committee

13th March 2019

Forward Plan

Recommendation

1. 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 is 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

1. None.

	Name	Contact Information
Report Author	Chris Norton	chrisonorton@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	

Appendix 4

Minutes of the Pension Fund Investment Sub-Committee meeting held on 10 June 2019

Present:

Members

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

Officers

Helen Barnsley – Democratic Services Officer

Aneeta Dhoot – Senior Finance Officer

Chris Norton – Strategic Finance Manager

Jane Pollard – Legal Service Manager

Michael Nicolaou – Interim Treasury and Pension Fund Manager

Sukhdev Singh – Senior Finance Manager

Invitees

Emma Garrett - Associate Investment Consultant, Hymans Robertson

Peter Jones – Independent Investment Adviser

Paul Potter – Hymans Robertson

Karen Shackleton – Independent Investment Adviser

Andrew Stone - Customer Relationship Manager for Border to Coast

Richard Warden – Hymans Robertson

1. General

(1) Apologies for absence

Councillor Bill Gifford (Vice-Chair) and Lisa Kitto – Interim Assistant Director of Finance and ICT tendered apologies.

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

None

(3) Minutes of the previous meeting held on 13 March 2019

The minutes of the meeting held on 13 March 2019 were agreed as a true and accurate record and were signed by the Chair. There were no matters arising.

2. Forward Plan

Chris Norton, Strategic Finance Manager presented the report to the Sub Committee which highlights the planned work for the next 6 to 12 months.

The majority of work currently on the forward plan is in connection to the Border to Coast valuation project.

The Committee also noted that there is a training session planned for 21 August 2019, all members and officers are invited. The session will look at actuarial training and housing.

The Committee noted the forward plan

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’.

3. Exempt Minutes of the previous meeting held on 13 March 2019

The exempt minutes of the meeting held on 13 March 2019 were agreed as a true and accurate record and were signed by the Chair. There were no matters arising.

4. Investment Performance

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

5. Funding level and investment update

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

6. Border to Coast – general business update

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

7. Border to Coast – proposed investments

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

8. Border to Coast – presentation/verbal update

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

9. Actuarial update – including 2019 Valuation

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

10. Any other items

None

The meeting rose at 12:35pm

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Chair

The next meeting of the Pension Fund Investment Sub Committee is
Monday 9 September 2019 at 10am, Shire Hall, Warwick.

Pension Fund Investment Sub Committee

10 June 2019

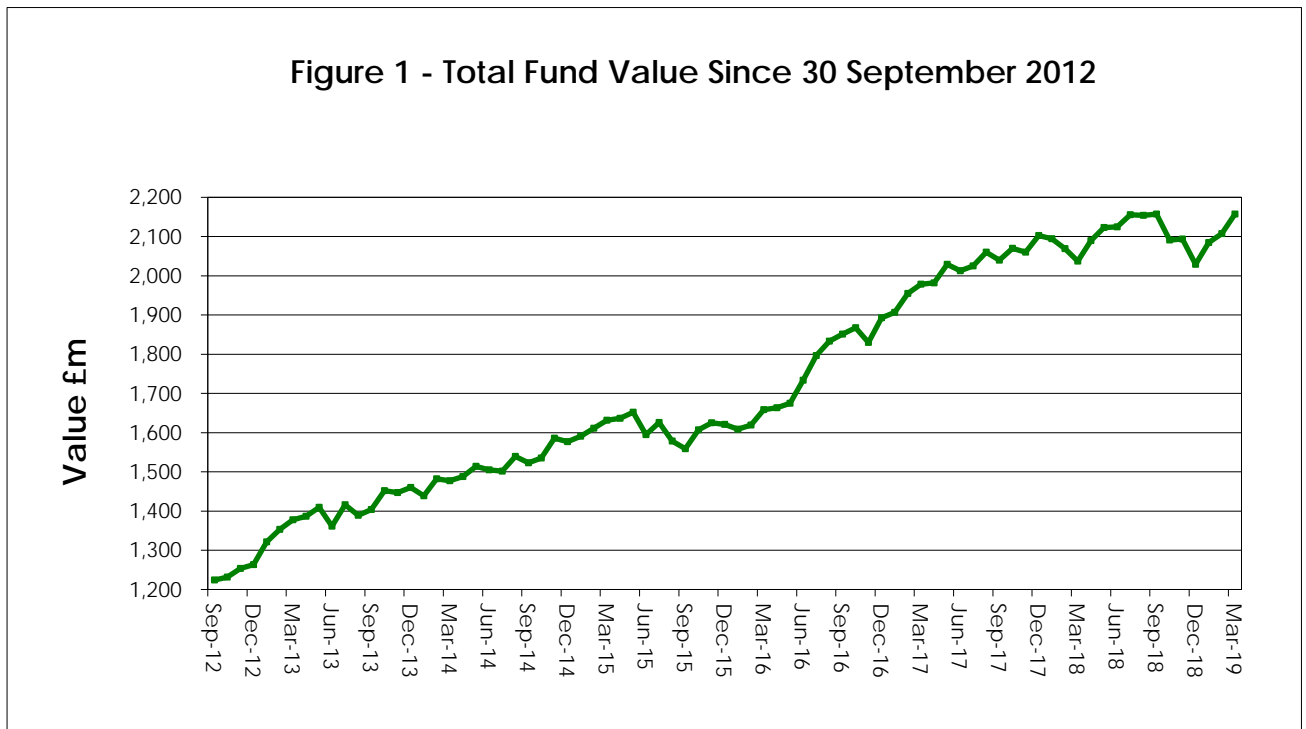
Investment Performance

Recommendation

That the Sub Committee note the fund value and investment performance for the last quarter of 2018/19 to 31 March 2019.

2. Fund Value at 31 March 2019

The fund value was £2,157.2 at 31st March 2019 an increase of 6.29% against the previous quarter of £2,029.4 at 31st December 2018 as shown in Figure 1. Note that this is a summary of the total value of the fund which is a product of employer cash flows as well as investment returns.



2. Fund Asset Allocation

2.2 The performance of the Fund against its asset class benchmarks for the quarter ending 31st March 2019 is shown in Table 1.

Table 1: Fund Asset Allocation

Asset Class	Q/E Dec 2018	Q/E Mar 2019	Variance Dec Qtr to Sep Qtr	Fund policy	Over/under weight
	%	%		%	%
Equity	56.7	55.7	-1.0	54.5	1.2
UK	19.1	18.5	-0.6	17.0	1.5
Overseas	27.8	27.2	-0.6	27.5	-0.3
Fundamental Global Equity	9.9	10.0	0.1	10.0	0.0
Fixed Income	15.8	16.2	0.5	15.0	1.2
UK corporate bonds	10.5	10.8	0.3	10.0	0.8
UK index linked bonds	5.3	5.5	0.2	5.0	0.5
Private Equity	5.1	5.6	0.5	4.0	1.6
Property	10.4	10.8	0.4	10.0	0.8
Absolute Return Bonds	6.2	5.9	-0.3	7.5	-1.6
Infrastructure	2.3	2.2	-0.1	4.0	-1.8
Private Debt	2.8	2.9	0.0	5.0	-2.1
Cash	0.7	0.6	-0.1	0.0	0.6

2.2 Equities have reduced in weighting following a rebalancing of UK equities. To reduce exposure to active global equities (part of the “overseas” line in the table above) further rebalancing back to the benchmark is planned in 2019/20 before any transfer to a pooled fund.

2.3 Private equity and property funds continue to grow as opportunities to invest continue to be identified.

2.4 The private debt allocation is the most recent new asset class and now has over half the planned allocation invested.

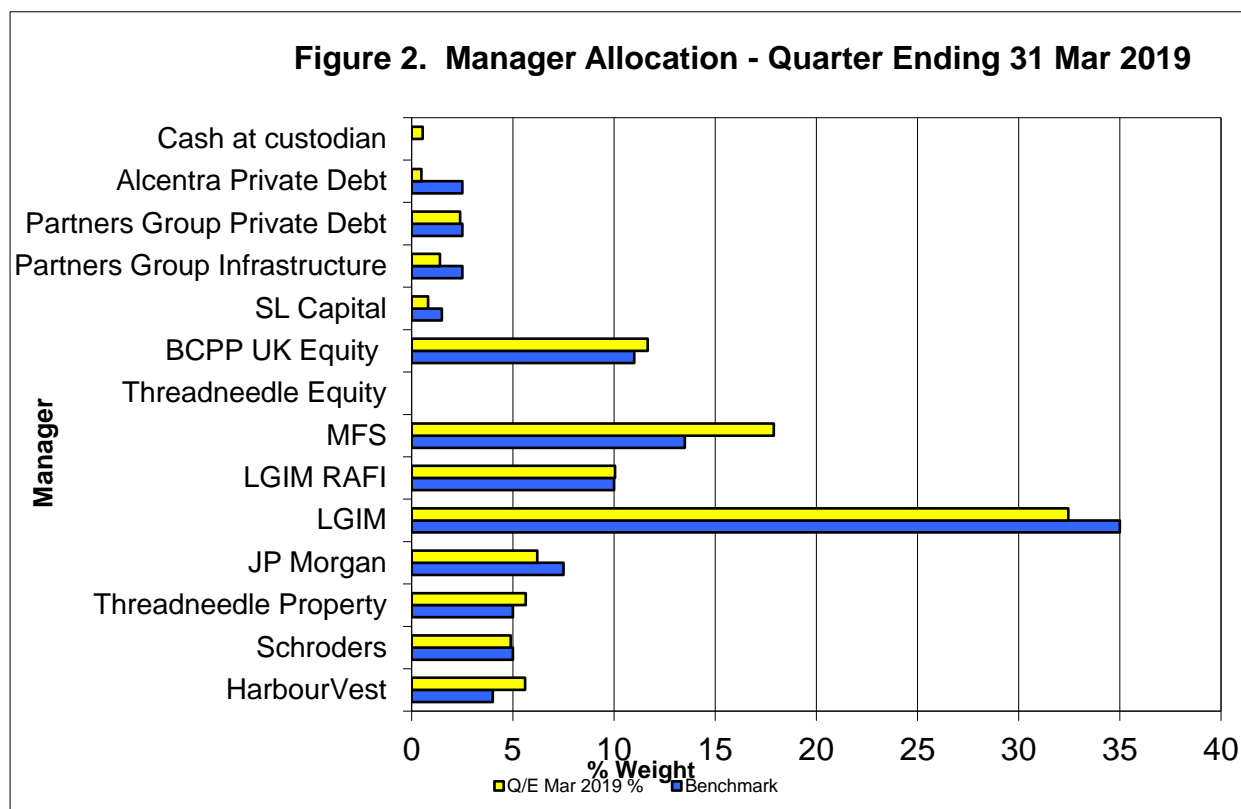
2.5 Cash balances have reduced slightly, now levelling out having been significantly higher earlier in the year (2.7% in June 2018 and 1.6% in September 2018).

2.5 The fund managers' asset allocation against the benchmark for the quarter ending 31st March 2019 is shown in Table 2.

Table 2: Fund Asset Allocation by Manager

Manager	Q/E Dec 2018 %	Q/E Mar 2019 %	Variance Mar Qtr to Dec Qtr	Benchmark	Variance Dec to Benchmark
HarbourVest	5.1	5.6	0.5	4.0	1.6
Schroders	5.2	4.9	-0.3	5.0	-0.1
Threadneedle Property	6.0	5.6	-0.3	5.0	0.6
JP Morgan	6.2	6.2	0.0	7.5	-1.3
LGIM	32.9	32.5	-0.4	35.0	-2.5
LGIM RAFI	10.0	10.0	0.0	10.0	0.0
MFS	17.4	17.9	0.5	13.5	4.4
Threadneedle Equity	0.0	0.0	0.0	0.0	0.0
BCPP UK Equity	11.3	11.7	0.4	11.0	0.7
SL Capital	0.9	0.8	0.0	1.5	-0.7
Partners Group Infrastructure	1.5	1.4	-0.1	2.5	-1.1
Partners Group Private Debt	2.5	2.4	-0.1	2.5	-0.1
Alcentra Private Debt	0.3	0.5	0.2	2.5	-2.0
Cash at custodian	0.8	0.5	-0.2	0.0	0.5
Total	100.0	100.0	0.0	100.0	0.0

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



3. Fund Performance

3.1 Overall the fund -performed in line with the overall benchmark. The performances of managers against their benchmarks for the quarter ending 31st March 2019 were:

Table 3: Performance by Fund Manager

Manager	Benchmark Measure	Q/E Mar 2019**	Benchmark	Variance
		%	%	%
MFS	Global Equity Benchmark	12.24	9.64	2.60
BCPP UK Equity*	FTSE All-Share	10.85	9.42	1.43
Legal and General (Global Equities)	LGIM Benchmark	8.02	8.70	-0.68
Legal and General (Fixed Interest)	LGIM Benchmark	4.75	3.99	0.76
Threadneedle Property	Customised Benchmark	0.54	0.50	0.04
Schroders Property	Customised Benchmark	0.18	0.28	-0.10
JP Morgan Strategic Bond	Customised Benchmark	2.82	0.18	2.64
Total	WCC Total Fund Benchmark	6.34	6.34	0.00

*BCPP UK Equity Fund replaces Threadneedle UK Equity

** figures represent net returns.

3.2 Equity markets continue to be volatile, but the last quarter of 2018/19 was a positive period overall and in addition to this the actively managed equity funds exceeded their benchmarks.

3.3 The strategic bond fund also performed well, as have many corporate bond funds. The fund returned a significantly better return than cash, in comparison to having returned -2.87% in the previous quarter.

3.4 Annualised return for the fund managers to 31st March 2019 is summarised in Figure 3. The three-year annualised return is summarised in Figure 4. (BCPP long-term performance will be included as it becomes available).

Figure 3. Fund Manager Performance for the Year Ending 31 Dec 2019

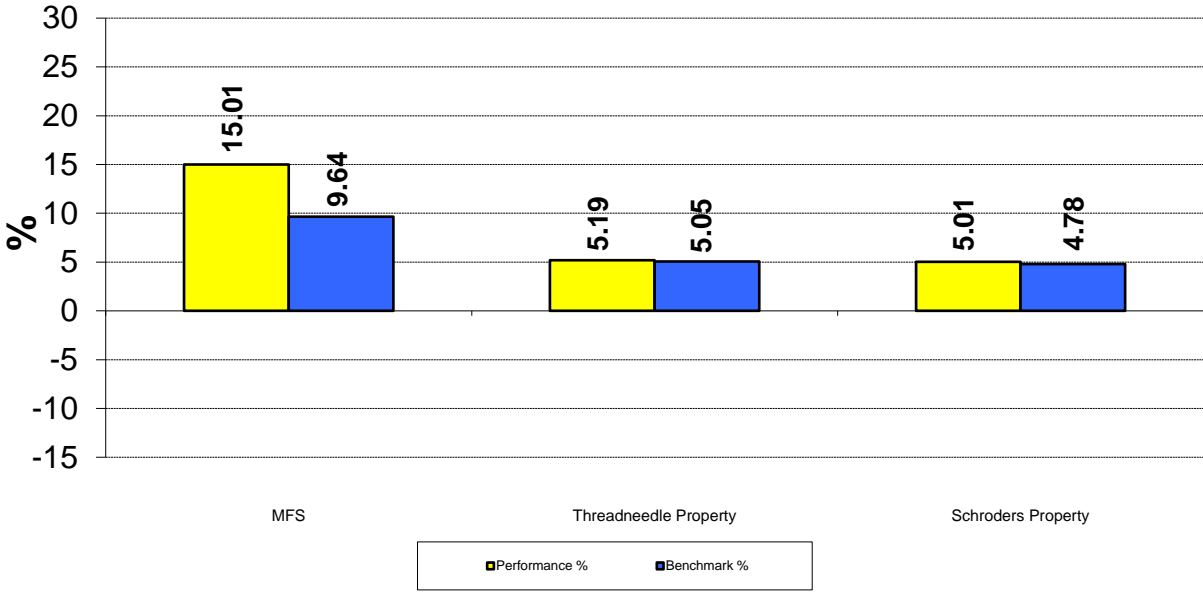
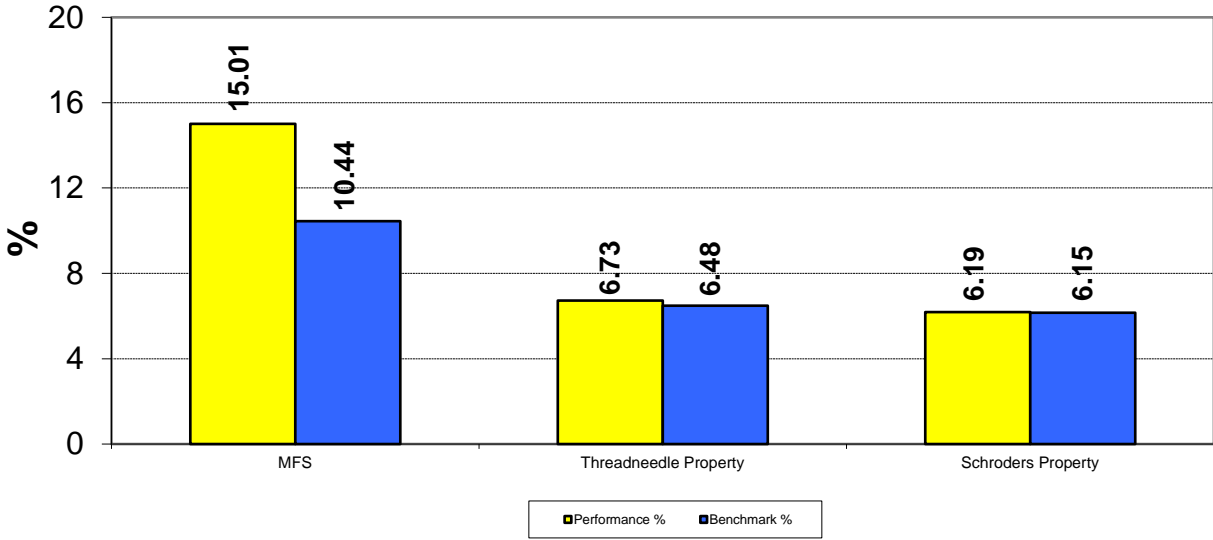
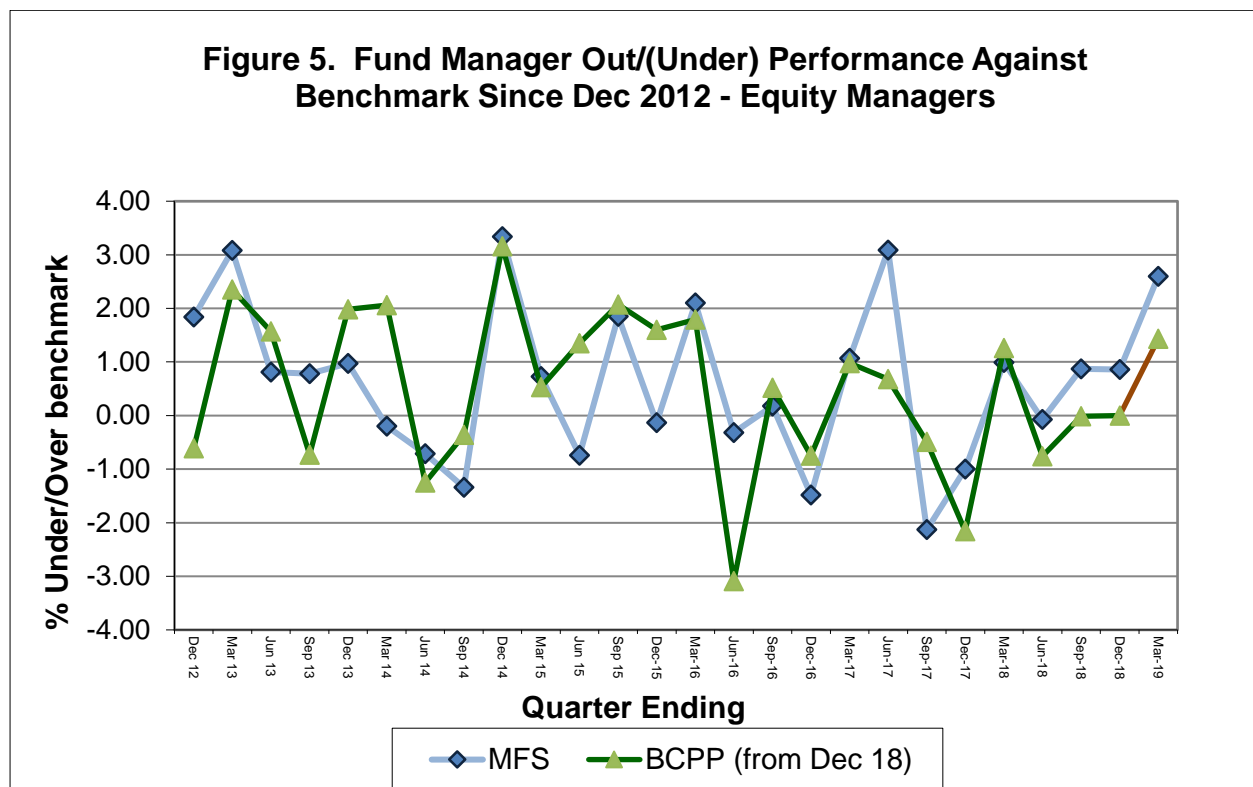


Figure 4. Fund Manager Performance for Three Years Ending 31 Dec 2019



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



Background papers

None

	Name	Contact Information
Report Author	Chris Norton	07767003428 chrisonorton@warwickshire.gov.uk
Assistant Director Finance	Lisa Kitto	01926 412441 lisakitto@warwickshire.gov.uk
Strategic Director (Resources)	Rob Powell	01926 412564 robpowell@warwickshire.gov.uk

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

Local Member(s):

Other members:

Pension Fund Investment Sub Committee

10 June 2019

Forward Plan

Recommendation

That the Sub Committee notes and comments on the forward plan.

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. The plan is set out at Appendix A.
- 1.2 The agenda for June has a significant amount of specific fund development decisions and discussions therefore the responsible investment / voting item has been put back to a later meeting.
- 1.3 In September or December an item looking at investment strategy modelling has been added, and can be considered alongside contribution strategies.

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
Strategic Director (Resources)	Rob Powell	01926 412564 robpowell@warwickshire.gov.uk
Portfolio Holder	Peter Butlin	cllrbutlin@warwickshire.gov.uk

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Other members:

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Investment Performance	Investment Performance	Investment Performance		Investment Performance
BCPP Planning Future Transfers	BCPP Planning Future Transfers	BCPP Planning Future Transfers	Election of Chair and Vice Chair	BCPP Planning Future Transfers
BCPP Monitoring Previous Transfers	BCPP Monitoring Previous Transfers	BCPP Monitoring Previous Transfers		BCPP Monitoring Previous Transfers
Forward Plan	Forward Plan	Forward Plan		Forward Plan
Investment Strategy Modelling (September or December)		Investment Strategy Statement Review		
2019 Actuarial Valuation	2019 Actuarial Valuation	2019 Actuarial Valuation		
Present Whole Fund Results	Agreed Employer Funding Strategies Draft Funding Strategy Statement	Valuation Sign Off Funding Strategy Statement		
Responsible investing / voting	Business Plan			
	Training Plan			
	Risk Management Review			