

Pension Fund Investment Sub-Committee

Date: Monday, 9 September 2019
Time: 10.00 am
Venue: Committee Room 2, Shire Hall

Membership

Councillor Richard Chattaway
Councillor Bill Gifford
Councillor John Horner
Councillor Wallace Redford
Councillor Bob Stevens

Items on the agenda: -

1. General

(1) Apologies

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

(3) Minutes of the previous meetings held on 10 June 2019 5 - 6

2. Forward Plan 7 - 8

3. Investment Performance 9 - 16

4. 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'.

5. Exempt minutes of the previous meetings held on 10 June 2019 17 - 22

6. Quarterly Funding and Performance Report 23 - 34

7. Voting and Stewardship Policy	35 - 66
8. Border to Coast Update	67 - 90
9. Border to Coast Investment Update	91 - 104
10. Valuation Update	105 - 108
11. Any other items	

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- 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

The public reports referred to are available on the Warwickshire Web

www.warwickshire.gov.uk/committee-papers_2

Public Speaking

Any member of the public who is resident or working in Warwickshire, or who is in receipt of services from the Council, may speak at the meeting for up to three minutes on any matter within the remit of the Committee. This can be in the form of a statement or a question. If you wish to speak please notify Paul Spencer in writing at least two working days before the meeting. You should give your name and address and the subject upon which you wish to speak. Full details of the public speaking scheme are set out in the Council's Standing Orders.

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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

9 September 2019

Forward Plan

Recommendation

That the Pension Fund Investment 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 the Appendix.
- 1.2 The agenda remains dominated by pooling developments and the 2019 valuation which are the high profile issues at this time.
- 1.3 A proposed addition to the forward plan is to provide a copy of the minutes of the Local Pension Board meetings for information and comment.

Background papers

None.

	Name	Contact Information
Report Author	Chris Norton	chrisnorton@warwickshire.gov.uk 07767003428
Assistant Director	Lisa 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.

December 2019	March 2020	May 2020	June 2020	September 2020
Investment Performance Report Fund Performance Report	Investment Performance Report Fund Performance Report		Investment Performance Fund Performance Report	Investment Performance Fund Performance Report
BCPP General Update BCPP Fund Transfers	BCPP General Update BCPP Fund Transfers	Election of Chair and Vice Chair	BCPP General Update BCPP Fund Transfers	BCPP General Update BCPP Fund Transfers
Forward Plan	Forward Plan		Forward Plan	Forward Plan
	Investment Strategy Statement Review			
2019 Actuarial Valuation Agreed Employer Funding Strategies Draft Funding Strategy Statement	2019 Actuarial Valuation Valuation Sign Off Funding Strategy Statement			
Business Plan				
Training Plan				
Risk Management Review				
Local Pension Board minutes of meeting	Local Pension Board minutes of meeting		Local Pension Board minutes of meeting	Local Pension Board minutes of meeting

Pension Fund Investment Sub-Committee

9 September 2019

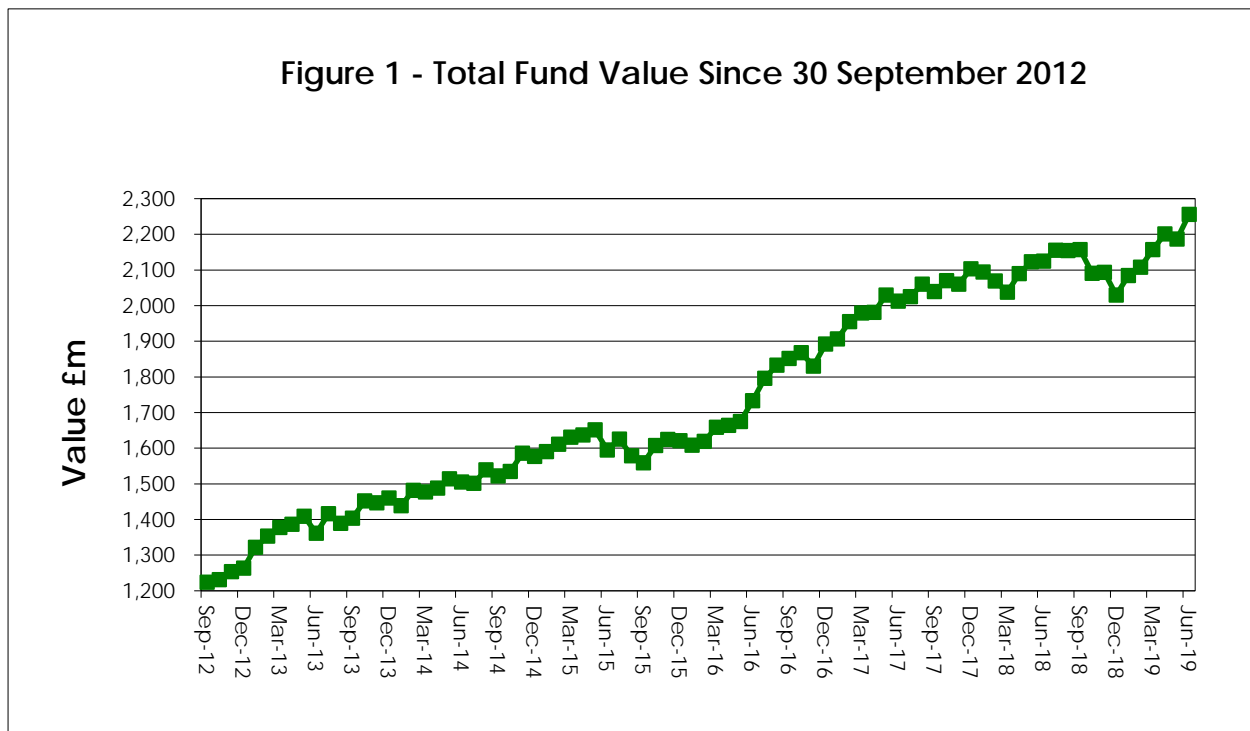
Investment Performance

Recommendation

That the Pension Fund Investment Sub-Committee note the fund value and investment performance for the first quarter of 2019/20 to 30 June 2019.

1. Fund Value at 30th June 2019

- 1.1 The fund value was £2,255.9m at 30 June 2019 an increase of 4.58% against the previous quarter of £2,157.2m at 31 March 2019 as shown in Figure 1.



- 1.2 Note that this shows the total value of the fund after accounting for all cashflows including investment related changes and also administration related e.g. transfers, contributions in, payments to pensioners. Work is under way to be able to provide a summary of these cashflows in future reports in order to provide more context.

2. Fund Asset Allocation

2.1 The performance of the Fund against its asset class benchmarks for the quarter ending 30 June 2019 is shown in Table 1.

Table 1: Fund Asset Allocation

Asset Class	Q/E Mar 2019	Movement from last Qtr to Current Qtr (Mar to Jun)	Q/E Jun 2019	Fund policy	Over/under weight	Tolerance
	%		%	%	%	
Equity	55.7	1.2	56.9	54.5	2.4	
UK	18.5	0.4	18.9	17.0	1.9	+/-2.5
Overseas	27.2	0.7	27.9	27.5	0.4	+/-2.5
Fundamental Global Equity	10.0	0.1	10.1	10.0	0.1	+/-2.5
Fixed Income	16.2	-0.2	16.0	15.0	1.0	
UK corporate bonds	10.8	-0.3	10.5	10.0	0.5	+/-1.5
UK index linked bonds	5.5	0.0	5.5	5.0	0.5	+/-0.5
Private Equity	5.6	-0.8	4.8	4.0	0.8	n/a
Property	10.8	-0.6	10.2	10.0	0.2	n/a
Absolute Return Bonds	5.9	-0.2	5.7	7.5	-1.8	n/a
Infrastructure	2.2	0.2	2.4	4.0	-1.6	n/a
Private Debt	2.9	-0.1	2.8	5.0	-2.2	n/a
Cash	0.6	0.6	1.2	0.0	1.2	n/a

Notes:

- **Equities** – (BCPP, MFS, LG). Ahead of transitioning global equities from MFS into BCPP a rebalancing exercise is being planned (July 19) to move £80m circa into Legal and General as part of an updated strategic asset allocation. Equities have performed well in Q2 and this has increased their proportion of the asset allocation.
- **Private Equities, Infrastructure** – these allocations continue to grow towards their target allocations as opportunities to invest are identified.
- **Absolute Return Bonds** – (JP Morgan) The fund seeks to maximise returns by investing primarily in a global portfolio of fixed and floating rate Debt Securities.

2.2 The fund managers' asset allocation against the benchmark for the quarter ending 30 June 2019 is shown in Table 2 (A & B).

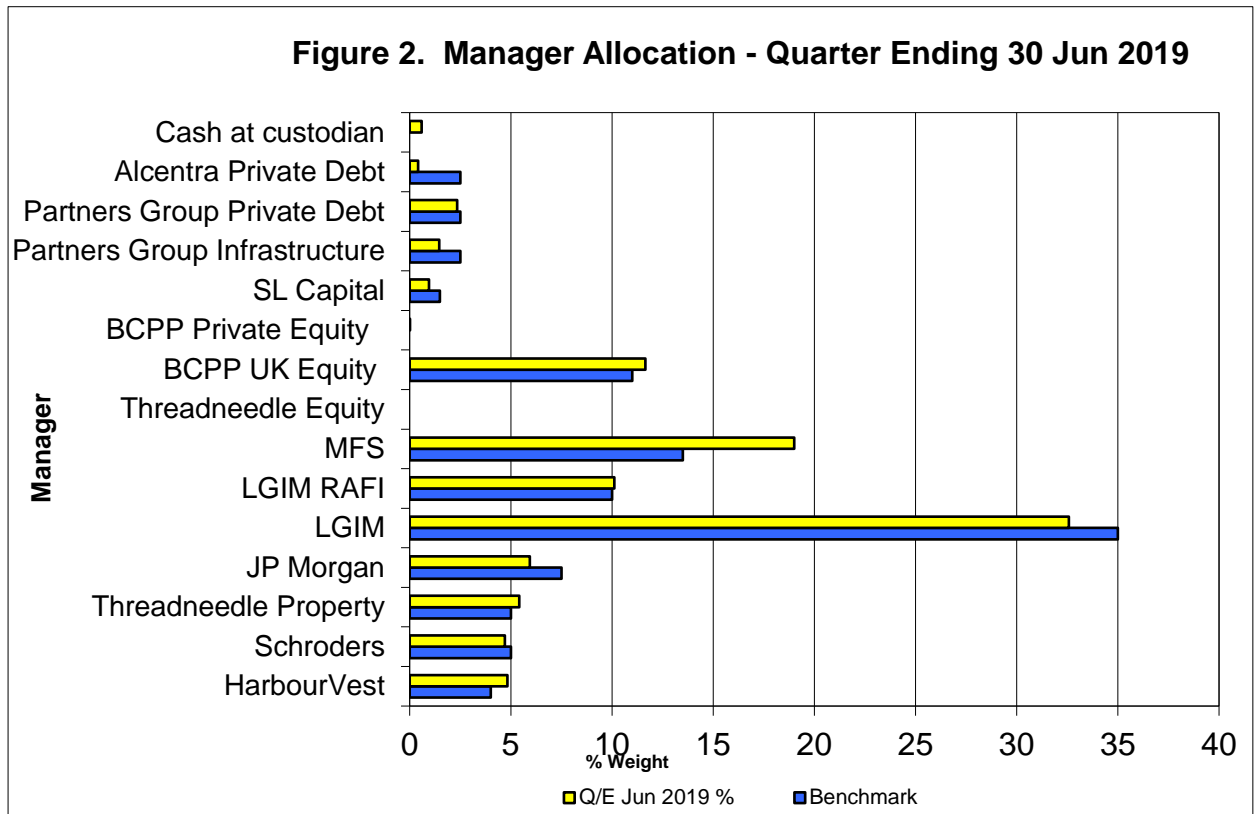
Table 2: Fund Asset Allocation by Manager (percentage - A)

Manager	Q/E Mar 2019 %	Movement from last Qtr to Current Qtr (Mar to Jun)	Q/E Jun 2019 %	Benchmark	Variance Mar to Benchmark
HarbourVest	5.6	-0.8	4.8	4.0	0.8
Schroders	4.9	-0.1	4.7	5.0	-0.3
Threadneedle Property	5.6	-0.2	5.4	5.0	0.4
JP Morgan	6.2	-0.5	5.7	7.5	-1.8
LGIM	32.5	0.1	32.6	35.0	-2.4
LGIM RAFI	10.0	0.1	10.1	10.0	0.1
MFS	17.9	1.2	19.1	13.5	5.6
BCPP UK Equity	11.7	0.0	11.7	11.0	0.7
BCPP Private Equity	0.0	0.0	0.0	0.0	0.0
SL Capital	0.8	0.1	1.0	1.5	-0.5
Partners Group Infrastructure	1.4	0.1	1.5	2.5	-1.0
Partners Group Private Debt	2.4	-0.1	2.3	2.5	-0.2
Alcentra Private Debt	0.5	-0.1	0.4	2.5	-2.1
Cash at custodian	0.5	0.1	0.6	0.0	0.6
Total	100.0	-0.1	100.0	100.0	0.0

Fund Asset Allocation by Manager (Monetary values - B)

Manager	Q/E Mar 2019 £	Movement from last Qtr to Current Qtr (Mar to Jun)	Q/E Jun 2019 £	Benchmark	Variance Jun to Benchmark
HarbourVest	120.8	-11.9	108.9	90.2	18.6
Schroders	105.5	1.6	107.1	112.8	-5.7
Threadneedle Property	121.7	0.7	122.4	112.8	9.6
JP Morgan	133.7	-5.2	128.6	169.2	-40.6
LGIM	701.1	35.2	736.3	789.6	-53.3
LGIM RAFI	215.7	12.6	228.3	225.6	2.7
MFS	385.9	44.2	430.2	304.5	125.1
BCPP UK Equity	252.4	11.8	264.1	248.2	16.0
BCPP Private Equity	0.0	0.2	0.2	0.0	0.2
SL Capital	17.7	3.9	21.6	33.8	-12.2
Partners Group Infrastructure	30.2	2.7	32.9	56.4	-23.5
Partners Group Private Debt	51.8	1.0	52.8	56.4	-3.6
Alcentra Private Debt	10.3	-0.8	9.5	56.4	-46.9
Cash at custodian	10.8	2.7	13.5	0.0	13.5
Total	2157.6	98.8	2256.4	2255.9	0.0

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



3. Fund Performance

3.1 Overall the fund performed better than its benchmark. The performances of managers against their benchmarks for the quarter ending 30 June 2019 was:

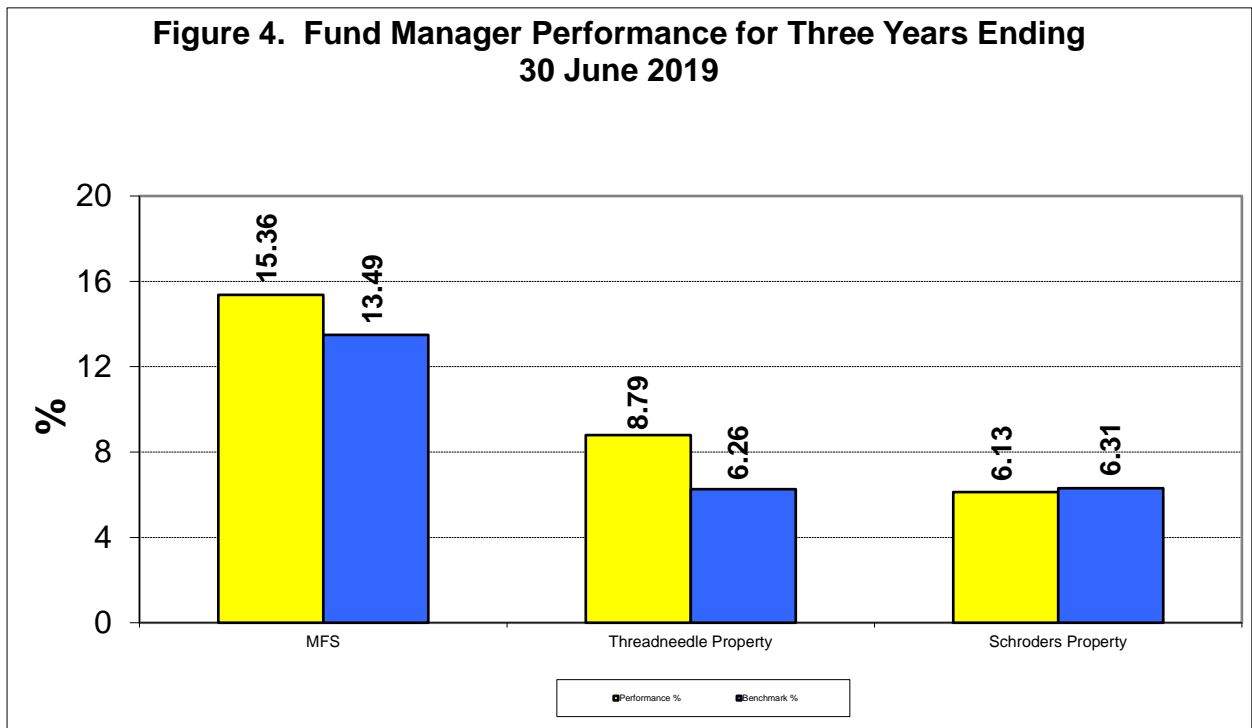
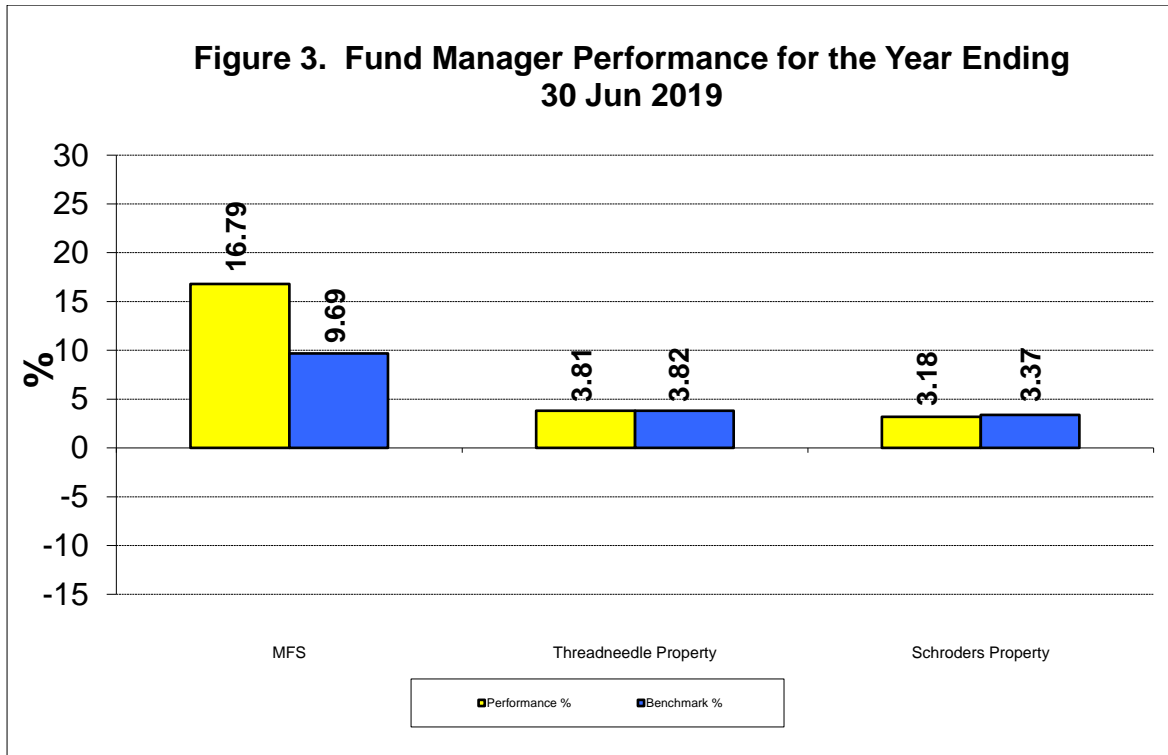
Table 3: Performance by Fund Manager

Manager	Benchmark Measure	Q/E Jun 2019	Benchmark	Variance
		%	%	%
MFS	Global Equity Benchmark	8.39	6.09	2.30
BCPP Uk Equity	FTSE All-Share	4.14	3.27	0.87
Legal and General (Global Equities)	LGIM Benchmark	5.54	5.59	-0.05
Legal and General (Fixed Interest)	LGIM Benchmark	1.89	1.86	0.03
Threadneedle Property	Customised Benchmark	0.49	0.65	-0.16
Schroders Property	Customised Benchmark	0.47	0.59	-0.12
JP Morgan Strategic Bond	Customised Benchmark	1.34	0.18	1.16
Total	WCC Total Fund Benchmark	4.58	3.62	0.96

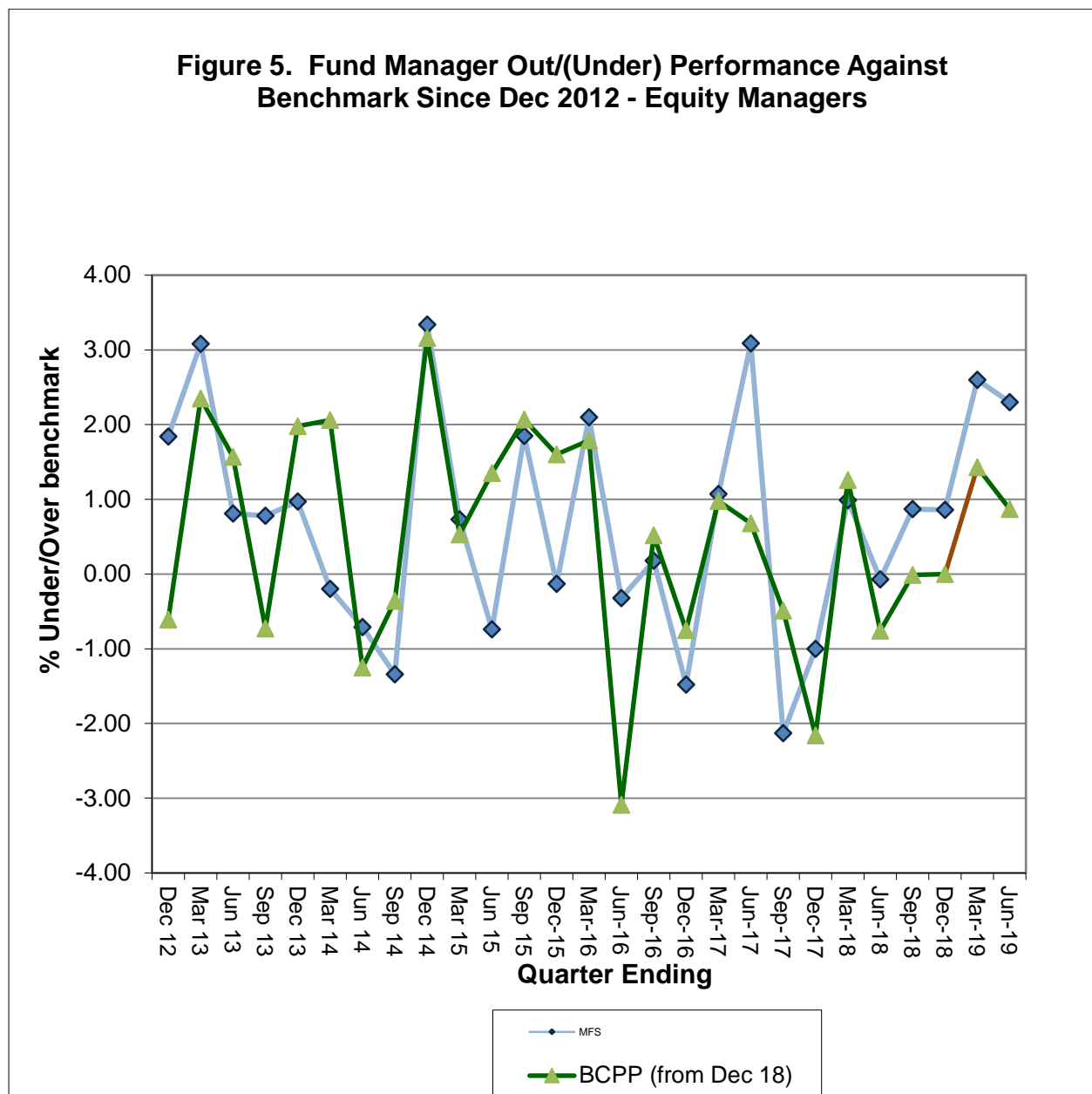
*BCPP UK Equity Fund replaces Threadneedle UK Equity.

- **Equities** – (BCPP, MFS, LG) Overall equities have performed above benchmark. Global equity markets have continued to advance, mainly helped by more dovish comments from the US Federal Reserve and the European Central Bank, despite geopolitical risks including continued uncertainty around the US-China trade war and heightened risk of a no-deal Brexit
- Both Active Equities Managers (MFS/BCPP) have beaten the benchmark by 3.17% against the quarter. This compares to passive Manager (LG) under achieving its target by -.02%
- **Property** – (Schroders, Threadneedle) – Slight under-performance as Brexit continues to affect UK performance and until there is greater clarity this is forecast to continue affecting UK performance.
- **Absolute Return Bonds** – (JP Morgan) – The fund seeks to maximise returns by investing primarily in a global portfolio of fixed and floating Debt Securities. Corporate high yield was the largest contributor to performance, as dovish central banks and tentative progress on trade helped spreads to tighten by more than 50 basis points. Corporate investment grade also contributed, with high grade funds experiencing significant inflows given the general move up in quality and the grab for yield that has resulted from negative rates in Europe.

3.2 Annualised return for the fund managers to 30 June 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).



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



4. Actively Managed Equities Fund Manager Performance

4.1 Some equity funds are actively managed with the intention of paying an additional fee in order to achieve a return better than a passive fund would achieve. This section sets out those funds, detailing the additional targets set and the additional fees incurred.

4.2 Targets are set over rolling 3 year periods therefore it is important to consider short term performance in this context and that the UK Alpha Equity Fund data in

the table below only represents 7 months (November 2018 to June 19) of activity. The performances of managers against their targets were:

	Inception to June 19	3 yrs
Fund	UK Alpha Equity Fund	MFS
Benchmark Source	FTSE All Share	MSCI All Country World Index
Target	+2% over rolling 3 year period	+1.5% over rolling 3 year period
Benchmark	11.32%	13.47%
Target	13.32% (net of fees**)	14.97% (gross of fees**)
Performance	13.36% (gross of fees)	15.22% (gross of fees)
Over/(Under) Target	0.04%	0.25%
Fees paid (in % terms)	32 bps	48 bps first (GBP £25m) 44 bps next (GBP £25m) 40 bps excess of (GBP £50m)

- * BCPP UK Equity Fund replaces Threadneedle UK Equity effective November 2018.
- **net of fees refers to where the return quoted is after taking off fees paid to the fund manager. Gross of fees refers to where the return quoted is before taking off the fees paid to fund managers.

Background papers

None.

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Report Author	Chris Norton	07767-003428 chrisnorton@warwickshire.gov.uk
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The report was not circulated to members prior to publication.

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