

Local Pension Board

14 November 2019

Summary of PFISC Papers

1.0 Introduction

This report introduces the Pension Fund Investment Sub-committee (PFISC) public papers for note and comment

1.1 These papers are in relation to the Sub-committee meeting held on 9 September 2019.

1.2 The report covers:

- Draft Minutes of the public meeting for 9 September 2019 (Appendix 1)
- Investment Performance Report for quarter ending June 2019 (Appendix 2)
- Draft Forward Plan for September 2019 (Appendix 3)

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	Lisa Kitto	01926 412441 lisakitto@warwickshire.gov.uk
Strategic Director	Rob Powell	01926 412564 robpowell@warwickshire.gov.uk

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

Local Member(s): None
Other members: None

Appendix 1

DRAFT MINUTES

Meeting ID	218
Committee	Pension Fund Investment Sub-Committee
Date	09/09/2019
Attendees	<p>Councillor Richard Chattaway (Committee Member)</p> <p>Councillor Bill Gifford (Committee Member)</p> <p>Councillor Bob Stevens (Chair)</p> <p>Councillor John Horner (Committee Member)</p> <p>Councillor Wallace Redford (Committee Member)</p> <p></p> <p>Anneta Dhoot (Officer)</p> <p>Chris Norton (Officer)</p> <p>Helen Barnsley (Secretary)</p> <p>Jane Pollard (Officer)</p> <p>Michael Nicholou (Officer)</p> <p>Neil Buxton (Officer)</p> <p>Rob Powell (Officer)</p> <p></p> <p>Andrew Stone - Customer Relationship Manager for Border to Coast</p> <p>Emma Garrett - Associate Investment Consultant, Hymans Robertson</p> <p>Karen Shackleton – Independent Investment Adviser</p> <p>Paul Potter – Hymans Robertson</p> <p>Peter Jones – Independent Investment Adviser</p> <p>Richard Warden – Hymans Robertson</p>

Item ID	368
Item Title	General
Summary	

Item ID	369
Item Title	Apologies
Summary	

Item ID	370
Item Title	Members' Disclosures of Pecuniary and Non-Pecuniary Interests
Summary	None

Item ID	371
Item Title	Minutes of the previous meeting held on 10 June 2019
Summary	<p>Rob Powell was added to the attendance record for the meeting held on 10 June 2019.</p> <p>The minutes of the meeting held on 10 June 2019 were agreed as a true and accurate record and were signed by the Chair. There were no matters arising</p>

Item ID	372
Item Title	Forward Plan
Summary	<p>Chris Norton, Strategic Finance Manager presented the report to the sub-committee which highlights the rolling plan of work for the next 12 months. The report presented today outlined work until September 2020.</p> <p>The sub-committee noted the addition of the minutes from the last Local Pension Board meeting for the sub-committee to review, if appropriate.</p> <p>The sub-committee agreed that the forward plan is a useful item to have at meetings and thanked officers.</p>

Item ID	382
Item Title	Investment Performance
Summary	<p>Chris Norton, Strategic Finance Manager presented the report to the sub-committee. It was confirmed that the report related to the total value of the fund, as a whole and not individual parts to the fund.</p> <p>The report confirms that –</p> <ul style="list-style-type: none"> • Property funds continue to struggle; due to the uncertainties of Brexit • Equity funds are performing very well <p>The sub-committee noted that the performance information shows rolling target information as well as benchmark performance information. Councillor John Horner requested that future reports included some historical information in order to identify any trends in performance.</p> <p>The sub-committee noted the fund value and investment performance for the first quarter of 2019 up to 30 June 2019.</p>

Item ID	374
Item Title	Reports Containing Confidential or Exempt Information
Summary	The sub-committee moved 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

Appendix 2

Pension Fund Investment Sub Committee

9th September 2019

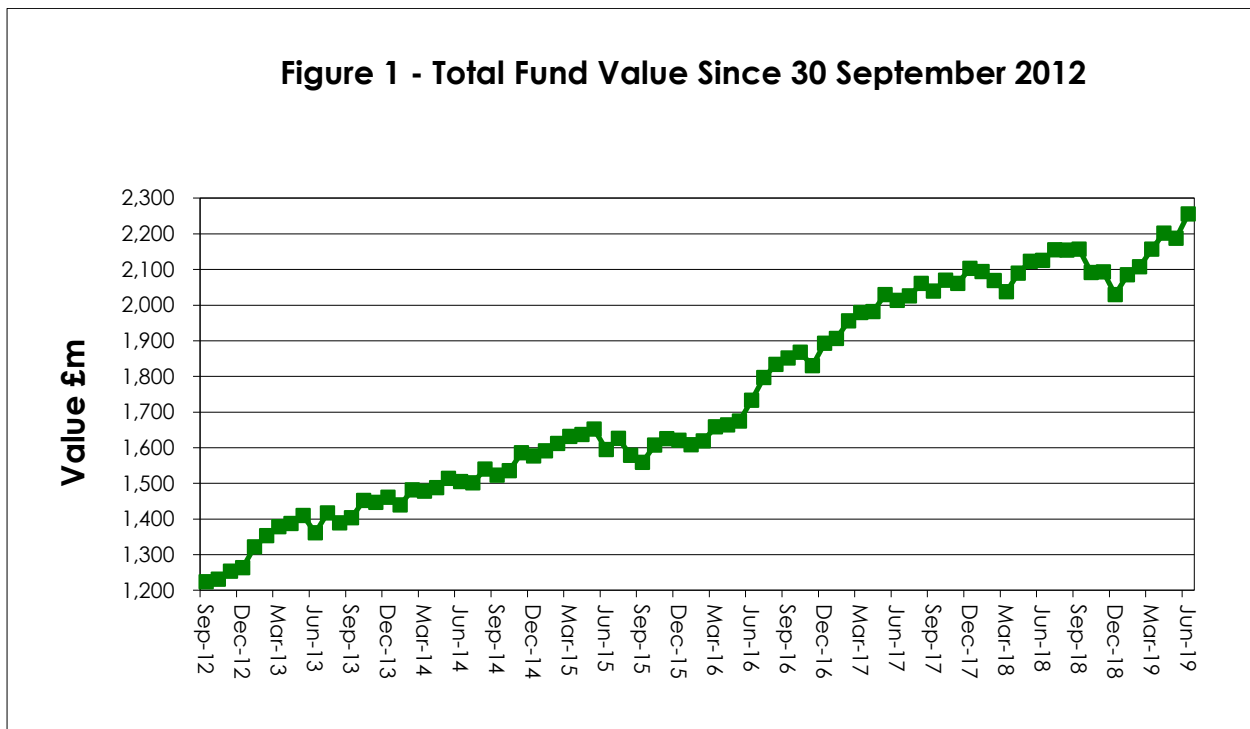
Investment Performance

Recommendation

- (1) That the Sub Committee note the fund value and investment performance for the first quarter of 2019/20 to 30th June 2019.

1. Fund Value at 30th June 2019

- 1.1 The fund value was £2,255.9m at 30th June 2019 an increase of 4.58% against the previous quarter of £2,157.2m at 31st 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 30th 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 LG 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 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 30th June 2019 is shown in Table 2 (A & B).

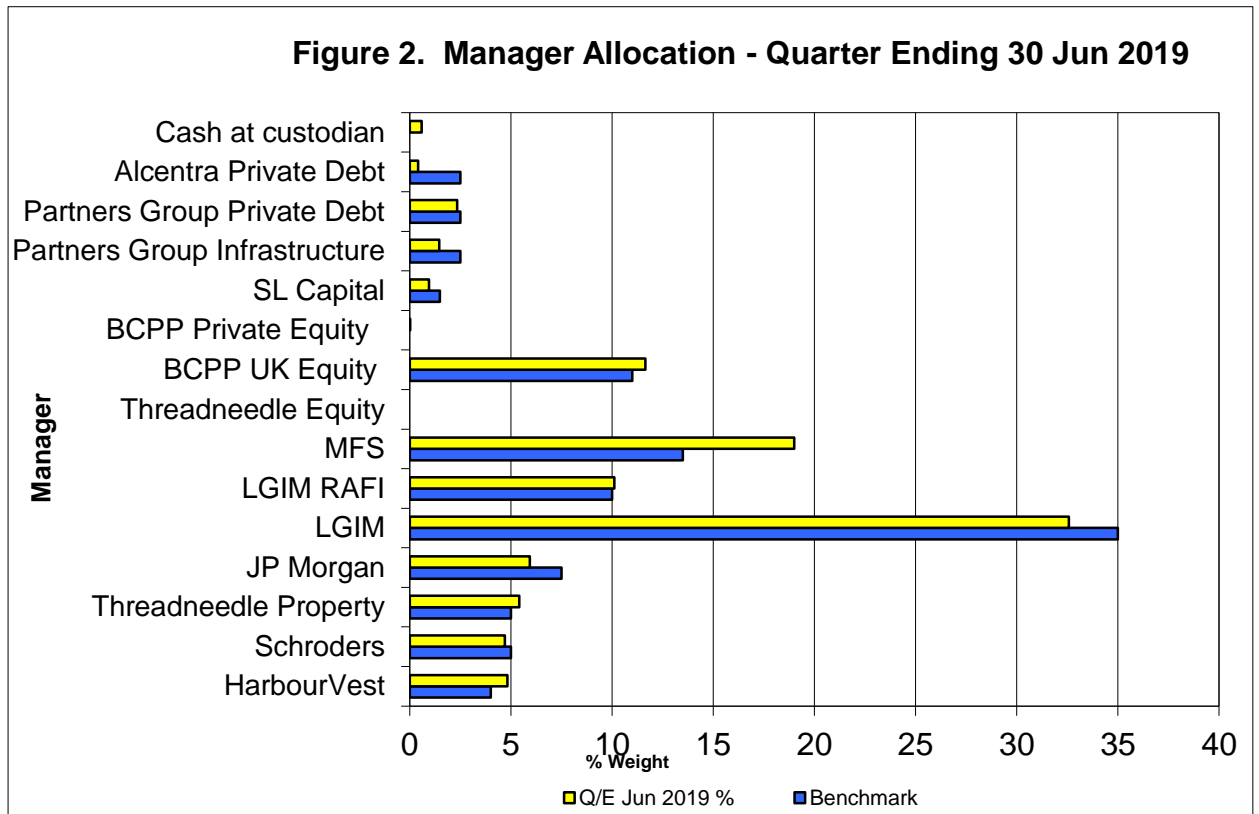
Table 2: Fund Asset Allocation by Manager (percentage - A)

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 30th June 2019 was:

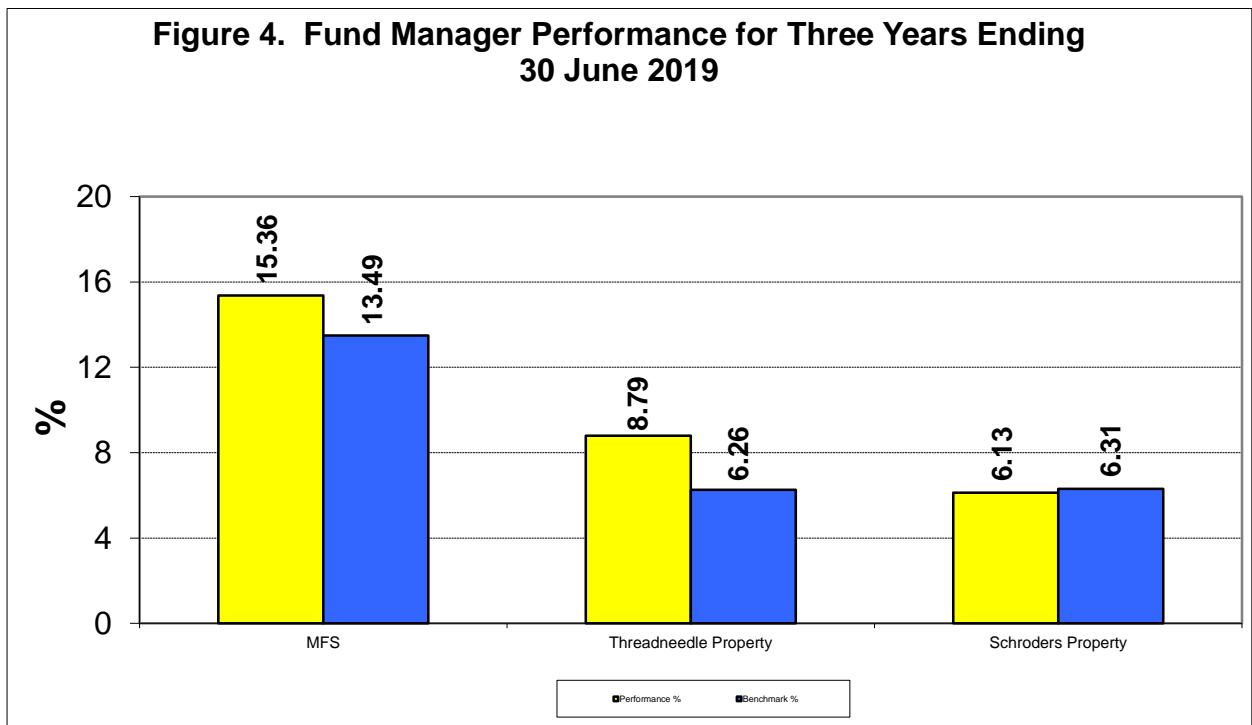
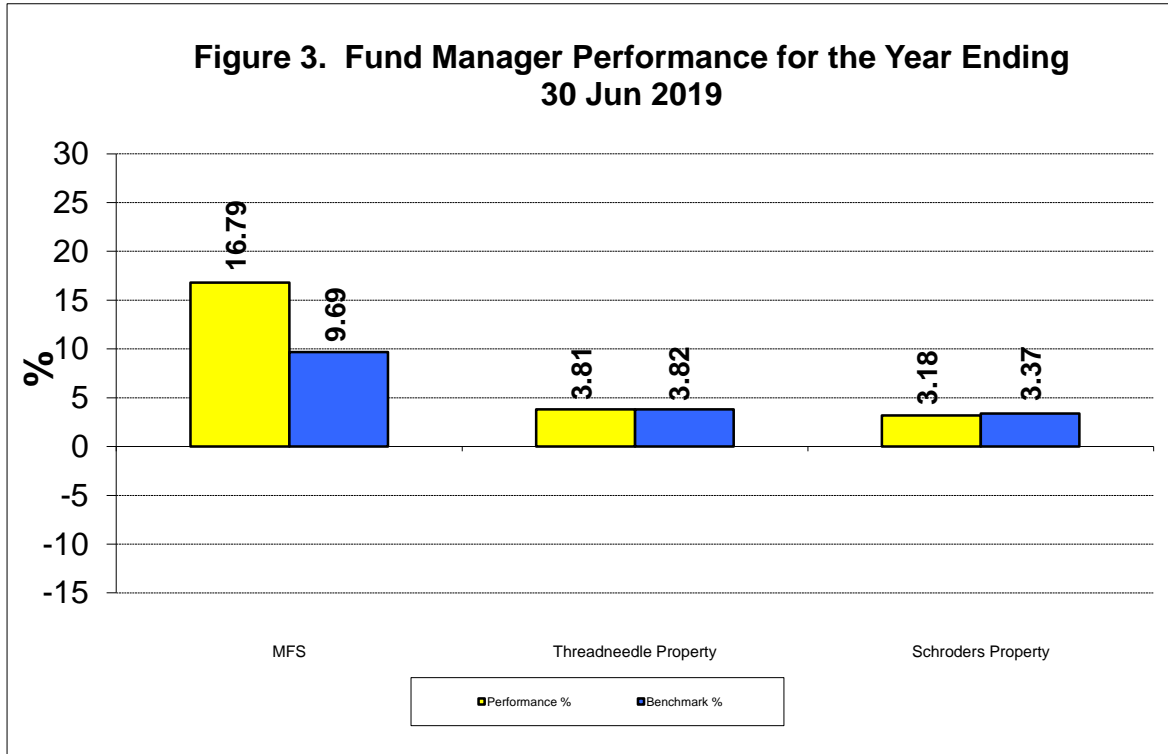
Table 3: Performance by Fund Manager

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

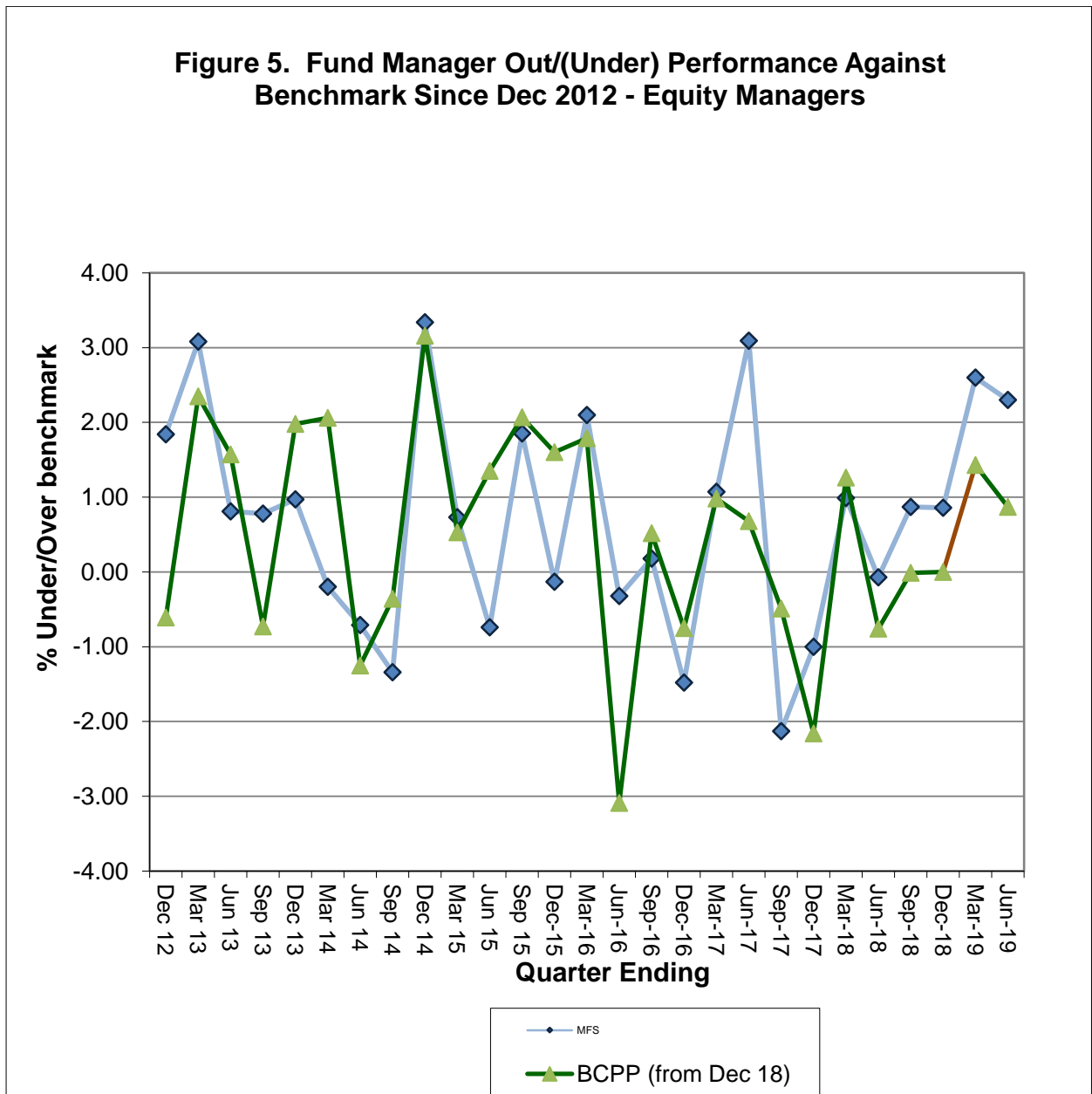
*BCPP UK Equity Fund replaces Threadneedle UK Equity.

- **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 a clear decision is made 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 30th 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.

1. Background papers

1. None.

	Name	Contact Information
Report Author	Chris Norton, Strategy and Commissioning Manager	07767-003428 chrisonorton@warwickshire.gov.uk
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The report was circulated to the following members prior to publication:

Local Member(s): None

Other members: None

Appendix 3

9th September 2019

Forward Plan

Recommendation

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

1.0 Introduction

1.3 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.

1.4 The agenda remains dominated by pooling developments and the 2019 valuation which are the high profile issues at this time.

1.5 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

1. None.

	Name	Contact Information
Report Author	Chris Norton	chrisnorton@warwickshire.gov.uk 07767003428
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The report was circulated to the following members prior to publication:

Local Member(s):

Other members:

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				