

**Pensions Committee****Monday, 26 September 2016, County Hall, Worcester - 2.00 pm****Present:****Minutes**

Mr R W Banks (Chairman), Mr R C Lunn (Vice Chairman) and Mr P A Tuthill

Co-opted Members (voting) – Mr V Allison (Employer representative), Mr A Becker (Employee representative) and Mr R J Phillips (Herefordshire Council)

**Available papers**

The Members had before them:

- A. The Agenda papers (previously circulated); and
- B. The Minutes of the meeting held on 28 June 2016 (previously circulated).

A copy of document A will be attached to the signed Minutes.

**50      Named  
         Substitutes  
         (Agenda item 1)**

None.

**51      Apologies/  
         Declarations of  
         Interest  
         (Agenda item 2)**

Apologies were received from Mr A I Hardman and Mr R J Sutton.

Mr V Allison and Mr A Becker declared an interest as members of the Pension Fund.

**52      Public  
         Participation  
         (Agenda item 3)**

None.

**53      Confirmation of  
         Minutes  
         (Agenda item 4)**

**RESOLVED** that the Minutes of the meeting held on 28 June 2016 be confirmed as a correct record and signed by the Chairman.

**54      Pension  
         Investment  
         Update (Agenda  
         item 5)**

The Committee considered the Pension Investment update.

The representative of the Chief Financial Officer introduced the report and made the following comments:

- Managers at JP Morgan Emerging Markets had put forward an argument that their current performance was as a result of their 'value and momentum' investment style being out of favour with market conditions. The key was how their results improved during the next few quarters
- The Pension Investment Advisory Panel had expressed concern that JP Morgan Bonds were not making best use of its portfolio risk budget
- The financial markets had recovered post Brexit. However, Sterling remained low which had benefited the value of the Fund's overseas investments when converted back to Sterling. The Fund's current market value of £2.1bn was strong compared to recent years
- Although Schroders had performed poorly in the first quarter of 2016, they had recovered some of the losses in the second quarter and over the longer term they had outperformed the market and almost achieved their performance target. Their investment style was less value based and more focused on growth
- Passive equities had performed in-line with their benchmarks, as required. The alternative beta indices had outperformed the market cap indices in the portfolio
- Meetings had been held with Property and Infrastructure Investment managers and he confirmed that investment performance was on track.

In the ensuing debate, the following principal points were raised:

- The Performance bar chart set out at Appendix 2 of the agenda papers did not show how the managers were meeting expectations and did not reflect how challenging their target was. The representative of the Chief Financial Officer commented that the chart set out to show the actual performance of managers against the contractual expected performance. The report to the next meeting would provide greater details of benchmarks and the pound value of outperformance or underperformance. If so desired, he could provide that information for each pension investment update report
- Did the Fund hedge against currency fluctuations? The representative of the Chief Financial Officer indicated that the Fund only hedges the bond portfolio back to Sterling. Viewed over the long

term, there was a cost to hedging which was not considered good value for money however consideration of hedging as an investment strategy would form part of the next strategic asset allocation review

- In response to a query, the representative of the Chief Financial Officer explained that Portfolio Evaluation Limited (PEL) had been appointed following WM Company (StateStreet) exiting the market. PEL were working with the Fund's Property and Infrastructure managers to report performance against target IRR but also actual cash flows against investment case expected cash flows, over the life of the property and infrastructure investments.

### **RESOLVED that:**

- a) The Independent Financial Adviser's fund performance summary and market background be noted;**
- b) The update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Panel be noted; and**
- c) Fund Officers are instructed to start fee discount negotiations with JP Morgan (Bonds).**

## **55 Administering Authority - Administration update (Agenda item 6)**

The Committee considered the administering authority – administration update.

In the ensuing debate, the following principal points were raised:

- The HR/OD Service and Commissioning Manager indicated that the Fund had received notice of a Government consultation on a termination cap of £95K for the public sector. This would mean that if an exit package totalled more than £95K then measures would need to be introduced to reduce the package to below the target. There had been delays which meant that the consultation on behalf of the Fund would now be held in the autumn with the proposed introduction in April 2017. A response would be prepared to the consultation but it should be noted that the Government was intent on implementing the cap
- The next Administration Forum meeting on 17 October would provide a useful opportunity to engage with employers and emphasise the

**56      Actuarial  
Valuation -  
Government  
Actuary's  
Department  
Section 13 Dry  
Run Report  
(Agenda item 7)**

importance of the valuation process. The HR/OD Service and Commissioning Manager added that the service was trying different methods to engage employers and reiterate that very point

- In response to a query, the HR/OD Service and Commissioning Manager commented that the Annual Benefits Statement (ABS) showed members their likely pension at the point of retirement. However a number of members wished to see an indication of their pension should they retire early. Unfortunately there was not a software template capable of providing this information. It was intended to remind members that the ABS was not meant to provide a detailed breakdown of different parts of the Pension scheme. The benefit of working with other authorities was that it enabled the creation of a single design for the ABS that reduced costs
- The ABS was expensive to send out by post, was it intended to review the distribution of hard copies? The HR/OD Service and Commissioning Manager advised that the ultimate intention was to provide an electronic member self-service process in the future. However, software difficulties had put back plans to introduce the self-service system.

**RESOLVED that the general update from the Administering Authority be noted.**

The Committee considered the Government Actuary's Department (GAD) Section 13 Report.

In the ensuing debate concern was expressed about the confusing nature of the information set out in the GAD report and what it meant for the Pension Fund. In response the representative of the Chief Financial Officer commented that the general message to be taken from the Report was that the assumptions that the Council's Actuary was making were prudent in nature in comparison with other Actuaries. There would be a change in the way the Actuary valued the Fund from using gilt rate+ to CPI+ at the 2016 valuation. In the future, the aim of the Fund would be to outperform CPI+. He emphasised that this GAD Report had been brought to the Committee for information purposes.

**RESOLVED that the Government Actuary's Department (GAD) Section 13 Report be noted.**

## Exclusion of Public and Press

**RESOLVED** that pursuant to Section 100A of the Local Government Act 1972, the press and public shall be excluded from the meeting during items 5 and 6 on the grounds that there would be disclosure to them of information relating to the financial or business affairs of any particular person (including the authority holding the information) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

### Summary of the proceedings of the meeting during which the press and public were excluded.

#### **57 LGPS Central update (Agenda item 8)**

The Committee considered an update on the LGPS Central.

In the ensuing debate, the following principal points were raised:

- In response to a query, the representative of the Chief Financial Officer commented that the £500K pool set up cost budget would be a cost to the Pension Fund
- Concern was expressed about whether members of the Fund would benefit from the creation of LGPS Central and whether the Government would change their mind over its introduction. The representative of the Chief Financial Officer advised that the initial business case indicated that savings could be made over the long term and assurances had been received from the Government that there was no intention to change this pooling policy post Brexit
- Was there a clause in the contract with PricewaterhouseCoopers (PWC) to become the Financial Adviser to the pool that committed them to provide support for whole pooling process even if it was cut short by government? The representative of the Chief Financial Officer stated that there was no fixed project fee agreed with PWC, instead agreed fees had been based on discounted hourly rates for individual pieces of work associated with the pool setup project plan.

It was agreed that the LGPS Central update be noted, that an amendment the LGPS Central budget be approved as a result of an increase of in advisers' costs, a maximum of £500k pool set-up cost budget spending be delegated to the Chief Financial Officer with a requirement to report back to the Committee for any required pool set-up cost spending above the £500k limit,

**58**      **Green  
Investment  
Bank (Agenda  
item 9)**

and the outcome of the allocation of the authorised Collective Investment Vehicle's Operator running costs negotiations be approved by the Committee before the Shareholders' Agreement and Inter Authority Agreement are finalised and sealed.

The Committee considered an investment to the Green Investment Bank.

In the ensuing debate, the following principal points were raised:

- The proposed investment in the Green Investment Bank was the right thing to do for the benefit of Pension Fund members
- In response to a concern expressed about cash flow, the representative of the Chief Financial Officer explained that the combination of contribution income and transfers in was likely to be more than the pensions paid and transfers out over the full financial year but if a deficit did result a drawdown could be made from the Fund's passive equity manager to ensure the Fund held sufficient cash in its Pension Fund bank account.

**RESOLVED that the £10m investment to the Green Investment Bank be approved.**

**59**      **JP Morgan  
Bonds (Agenda  
item 10)**

The Committee considered a proposal for a fee discount for JP Morgan.

The representative of the Chief Financial Officer introduced the report and commented that meetings had been held with JP Morgan to discuss concerns about their use of their portfolio risk budget. The Chief Financial Officer had confirmed with JP Morgan that it was not possible to change their performance target. It was therefore suggested that their fee be further reduced.

In the ensuing debate, the following principal points were raised:

- The Chief Financial Officer and his staff should be congratulated for successfully negotiating a fee reduction with JP Morgan
- It was questionable whether it was worth persisting with JP Morgan given their poor performance. The representative of the Chief Financial Officer indicated that as part of the upcoming strategic asset allocation review, the performance of JP Morgan would be considered

- and a full report be brought to the Pension
- In response to a query, the representative of the Chief Financial Officer explained that the Central Pool would appoint a limited number of investment managers to the various sub-funds. The Pension Fund would not be able to select a particular investment manager but would be able to invest in a particular sub-fund e.g. UK equities.

The Committee approved a fee discount proposal for JP Morgan.

The meeting ended at 3.30pm

Chairman .....