Pensions Committee
Monday, 14 December 2015, County Hall, Worcester - 2.00 pm

Minutes

Present: Mr R W Banks (Chairman) Mr V Allison, and Mr P A Tuthill

Available papers

The Members had before them:

A. The Agenda papers (previously circulated); and

B. The Minutes of the meeting held on 30 September 2015 (previously circulated).

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

19 Named Substitutes (Agenda item 1)

None.

20 Apologies/ Declarations of Interest (Agenda item 2)

Apologies were received from Mr A Becker, Mr R C Lunn, Mr R J Philips, and Mr R J Sutton.

21 Public Participation (Agenda item 3)

None.

22 Confirmation of Minutes (Agenda item 4)

RESOLVED that the Minutes of the meeting held on 30 September 2015 be confirmed as a correct record and signed by the Chairman.

23 Pension Investment Update (Agenda item 5)

The Committee received a Pension investment update.

The Chief Financial Officer introduced the report and made the following points:

- As requested at a previous meeting, the Pension Fund Manager performance chart now gave an indication of the required benchmark performance for each manager

- Capital International were performing below the benchmark performance and although they had had a good year, it was recommended that they remained 'on watch'. The company had had a particularly bad year in 2008/9 and continued to struggle as a result. Their portfolio tilted towards consumer type products and with the USA economy improving, their performance was improving
- It was still recommended that Nomura remained 'on watch' as their performance was just at the benchmark level. They had had a difficult period from 2009-12. Their Japanese portfolio was doing well (albeit with some recent difficulties) and their emerging markets portfolio was starting to improve. However they held passive investments in Australia and had failed to find an appropriate manager. The Council had negotiated a fee reduction as a result
- JP Morgan Bonds had now been placed 'on watch' by the Pension Investment Advisory Panel. It was felt that the Fund managers did not challenge performance, were satisfied with achieving just above the benchmark and were not prepared to take risks. He would continue to push managers to improve performance. It was a small portfolio with only 6% of the Pension Fund being invested in bonds. Bonds tended not to have much liquidity and were over-inflated
- UBS passive investments tracked the market and therefore their performance tended not to vary very much
- JP Morgan Emerging Markets were now performing above the bench mark but had not reached their performance target and as a result, a fee reduction had been negotiated
- Schroders were performing above the benchmark and their performance target
- Overall, the Fund's assets were performing better and where they were not, fee reductions had been negotiated
- The Council was committed to a long term investment in equities despite the volatility in the market in the last quarter
- Emerging markets tended to be more volatile and had gone through a difficult period however there was a long term strategy to invest in these markets and he recommended that the Fund continued to make such investments.

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

- Was the approach to investing undertaken by Schroders different to the other fund managers? The Chief Financial Officer stated that most fund managers invested in low stock that could rise, Schroders took a momentum approach to investing in stock whereby stock was selected on the basis of its movement in the market and in addition, they maintained a high turnover of stock
- How often did the Pension Investment Advisory Panel review the Fund's investment Strategy? The Chief Financial Officer advised that a review of the Strategy was undertaken every three years. He had delegated authority to make certain amendments and any major changes in the interim would be reported to this Committee
- In response to a query, the Chief Financial Officer explained that Walton Street was being considered as the potential property and infrastructure investment firm for £27.5m of the original £200m investment. Walton Street invested in US Property Debt. Due diligence checks were being undertaken but at present the Fund's assets lacked this element of high risk investment. He would report back to the Committee when a decision had been made.

RESOLVED that:

a) **the Independent Financial Adviser's fund performance summary and market background be noted; and**

b) **the update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Panel be noted.**

24 Fee Savings Report (Agenda item 6)

The Committee considered an update regarding the Fund fee savings achieved since December 2013.

The Chief Financial Officer introduced the report and made the following points:

- The fee saving achieved from fee discounts negotiated with Capital International, Nomura and JP Morgan amounted to c. £1.5m over the period December 2013 to November 2015.
- The annual recurring fee saving achieved from the renegotiated global custodian fee schedule would be c. £210k per annum

- The annual recurring fee saving achieved for the Fund from the joint procurement of LGIM would be c. £290k per annum
- The report showed that it was possible to negotiate fee savings without entering into pooled asset arrangements.

RESOLVED that the update regarding Fund fee savings achieved since December 2013 be noted.

25 LGPS Asset Pooling (Agenda item 7)

The Committee considered an update on the LGPS Asset Pooling.

The Chief Financial Officer introduced the report and commented that the Government had set a time limit of 19 February 2016 for Pension Funds to respond in relation to their proposed pooled asset arrangements. By then, the Fund needed to have decided which Funds to join up with, and an implementation date for the Pooled Fund. He therefore proposed that a meeting of the Committee be arranged for January/February to discuss the proposed arrangements. The Government had indicated that the appointment of fund managers and the procurement of investments would be the responsibility Pooled Fund. The Fund was required to set out its final plans by the July 2016 closing date.

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

- It would be beneficial for the Committee to receive guidance on the pooled asset arrangements in an informal briefing session immediately prior to the proposed Committee meeting in January/February 2016
- In response to a query, the Chief Financial Officer explained that the Government had indicated that it intended to introduce backstop legislation if it was not satisfied that particular Pension Funds had not met the necessary criteria outlined by the Government. Work was underway to find like-minded partner funds and it was anticipated that the due diligence on these Funds would be completed in time to report to the Committee in January/February
- Was it possible that as a result of the pooling arrangements, certain investment firms would no longer form part of the Fund's investment portfolio? The Chief Financial Officer indicated that it was possible that certain investment firms would not be able to scale up to the requirements

of a pooled fund however it was too early to confirm at this stage.

RESOLVED that:

a) **the LGPS Asset Pooling update be noted; and**

b) **an additional meeting of the Committee be arranged in January/February 2016 (preceded by an informal briefing session) to discuss future proposals for the pooling of assets.**

26 Valuation Update (Agenda item 8)

The Committee considered the Mercer's valuation update.

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

- The Fund's actuary was required under legislation to undertake a triennial actuarial valuation of the Fund. The next valuation was due to take place on 31 March 2016 with new employer contribution rates implemented from 1 April 2017
- At the 31 March 2013, the Funding Position was 69% but by August 2013, due to a short term rise in the gilt rate, had increased to 73%
- Markets were currently volatile and it was hoped that the Pension Fund's assets would continue to perform through to the next valuation on 31 March 2016
- For many Fund employers short term pay restraint had been implemented during the inter valuation period. Lower pay than the actuarial long term expected average of 4.5% will have reduced liabilities
- At the 2013 valuation the maximum deficit recovery period for Fund employers was set at 21 years, in line with that of the Council's. This would be reviewed by Fund officers, along with proposed actuarial assumptions, as part of the 2016 valuation. The objective was to achieve a 100% funded scheme balanced by the affordability of employer contributions
- The negotiated actuarial assumptions and maximum deficit recovery period would be brought back to this Committee for approval in February 2016.

In response to a number of queries, the representative of the Chief Financial Officer explained that:

- The covenant strength of fund employers is

assessed when admitted to the fund and a review of employer covenant strength and associated protections in place was expected to take place for all fund employers in 2016
- At the last valuation a number of employers requested additional phasing of contributions or other allowances to ensure affordability of employer contributions. Fund officers negotiated with around 10 employers after assessing covenant strength and revised contribution payment schedules were implemented. A similar exercise would take place prior to the new rates being implemented on 1 April 2017
- At the 2013 valuation the Fund changed its policy regarding Deficit Payments from a percentage of pay to a defined £ lump sum. This policy ensured that as employers potentially reduced head count the value of deficit payments was maintained. This would have improved the funding position of Fund employers on average over the inter-valuation period
- The time line for the 2016 valuation was in line with that of the 2013 valuation. There had been no increase.

RESOLVED that the Mercer's valuation update be noted.

27 Administration update (Agenda item 9)

The Committee received a general update on the Pension Administration arrangements.

The report set out details of ceasing of contracting out from April 2016, tax changes from April 2016, negative pensions increase, current Government consultations, Pensions Administration Forum, and Admission agreements to the Fund.

The Human Resources – Service Centre Manager introduced the report and made the following points:

- Under the regulations for the new (single) state pension there was no requirement to provide an additional state pension therefore the current rebate would cease which would result in the current rebate received, by employers and employees being removed
- The Annual Allowance (AA) was currently set at £40k a year and was the maximum amount of taxed-relieved pension savings an individual could make in one year before receiving a tax charge. From April 2016 there would be a tapered reduction in AA down to a minimum £10K for

those earning over £150K for the tax year 2016/17 onwards. Transitional rules would be in place for aligning Pension Input Period to protect pre budget pension savings from the impact of changes. There would also be a change to the Lifetime Allowance reducing from £1.25m to £1m from April 2016. The Annual Benefit Statement for members included information on annual allowance and life-time allowance

- The September Consumer Prices Index (CPI) was used by the LGPS for calculating increases in pension benefits the following April. The September 2015 CPI was –0.1%. For those who had already retired/left service, there would be no increases to benefits from April 2016. For members in service, post 2014 CARE benefits could be reduced if HM Treasury chose to use their powers under legislation. HM Treasury had referred the matter to the House of Lords for a decision
- The Government was currently consulting on proposals for exit payments and potential clawback arrangements. In relation to any payment as a result of termination of employment, it was proposed that the individual's pension would be reduced back to a threshold of 95k. For active member over 55 years of age, the scheme required them to take their pension benefits. Where an employee had a pension package, there could be major implications in terms of the effect on their pension. The employer did have some discretion to waive the requirement
- The Government also announced a consultation on future pension taxation
- The recent Pensions Administration Forum had been reasonably well attended and an improvement on attendance for the last meeting. Good feedback had been received from attendees. Relationships with the School Business Manager Forums were being developed to encourage more Academy representatives to attend future Forum meetings
- It was important to keep monitoring the membership of the Fund and the affordability of the scheme.

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

- Would the Government proposals impact on the likelihood of staff seeking promotions? The Human Resources – Service Centre Manager commented that she anticipated that this may cause come issues for staff seeking promotion particularly for staff with many years of local government experience

- In response to a query, the Human Resources – Service Centre Manager confirmed that the proposed changes would impact upon staff further down the organisation's structure than had previously been the case.

RESOLVED that the general update on the Pension Administration arrangements from the Administering Authority be noted.

The meeting ended at 3.15pm.

Chairman …………………………………………….