worcestershire county council

Pensions Committee
Wednesday, 7 December 2016, County Hall, Worcester - 2.00 pm

Minutes

Present:		Mr R W Banks (Chairman), Mr A I Hardman, Mr R C Lunn (Vice Chairman), Mr R J Sutton 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 26 September 2016 (previously circulated). A copy of document A will be attached to the signed Minutes.
60	**Named Substitutes (Agenda item 1)**	None.
61	**Apologies/ Declarations of Interest (Agenda item 2)**	An apology was received from Mr A Becker. Mr R Phillips declared an interest as the Chairman of the LGPS Advisory Board. Mr V Allison declared an interest as a Member of the Pension Fund.
62	**Public Participation (Agenda item 3)**	None.
63	**Confirmation of Minutes (Agenda item 4)**	**RESOLVED that the Minutes of the meeting held on 26 September 2016 be confirmed as a correct record and signed by the Chairman.**
64	**LGPS Central Governance (Agenda item 5)**	The Committee considered the changes that will be required to the operational and governance arrangements for the Worcestershire County Council Pension Fund following recent amendment of the LGPS Investment Regulations.

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

- The Chief Financial Officer commented that representatives of the LGPS Central Pool had met the Minister for Communities and Local Government in November. The Minister re-affirmed the Government's previous stance that pooling was something all local government pension schemes were required to do. He was pleased with the progress made by the LGPS Central pool and gave permission for the pool to proceed – the first in the country
- There remained a major concern that it would take 15 years for the Pension Fund to reach a break-even point after the creation of the LGPS Central pool. The Chief Financial Officer stated that negotiations continued with LGPS Central pool partners to achieve a fairer basis for cost allocation and he was confident of a positive outcome for the Fund. The pooling process was very complex and had tight timescales which meant that its initial spend against budget had been exceeded but was still within the delegated allocations made by the Committee
- Discussions about the governance of the LGPS Central pool had focussed primarily on savings and investment in infrastructure but no account formally in the business case had been made of the performance of the pool. The Chief Financial Officer indicated that he had raised this matter with colleagues in the pool and he was aware that it was being discussed at the pool's programme board and working group
- In response to a query, the Chief Financial Officer explained that a smaller number of fund managers within the LGPS Central pool would be responsible for finding efficiency savings over a number of different fund holdings. However he stressed that approximately 80% of the gains made by the Pension Fund was forecast to be achieved by the strategic allocation of assets which remained a function of the Fund. In relation to investment in Infrastructure, once deployed, the Fund was already ahead of the Government's target
- The pooling arrangements would potentially allow greater options for investment and therefore possibly provide greater returns for the Pension Fund
- In response to a query, the Chief Financial Officer

commented that it was important to demonstrate that cross-subsidisation was not happening in the management of assets and cost share arrangements in the pool. It was a matter that would be brought back to a future Committee meeting to demonstrate how this risk was being managed.

RESOLVED the following recommendations be approved subject to a <u>condition</u> that a cost share agreement is agreed with all LGPS Central pool members that ensures value for money in the opinion of the Chief Financial Officer for the Worcestershire County Council Pension Fund from entering into the LGPS Central investment pool:

a) To enter into a joint agreement with Derbyshire County Council, Leicestershire County Council, Nottinghamshire County Council, Shropshire Council, Staffordshire County Council, Wolverhampton City Council and Cheshire West and Chester Borough Council to establish a joint pension fund investment pool, in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016; to be overseen by a Joint Committee established under s102 of the Local Government Act 1972;

b) TO RECOMMEND that a Joint Committee be established with the participating authorities under s102 of the Local Government Act 1972 to oversee LGPS Central arrangements and that the Head of Legal and Democratic Services be authorised to finalise the formal terms of reference for such a Joint Committee in consultation with the Chief Financial Officer;

c) That the Chairman of the Worcestershire County Council Pensions Committee, or his nominated representative be appointed act as the Council's representative on the Joint Committee;

d) That the Director of Governance and the Director of Finance of Cheshire West and Chester Borough Council provide

governance and administrative support to the Joint Committee on behalf of the participating Councils, subject to an appropriate cost sharing agreement agreed by the Chief Financial Officer in respect of officer time and other expenses;

e) **To become a joint shareholder of LGPS Central as a private company, limited by shares held solely by the participating funds, on a 'one fund, one vote' basis and incorporated for investment management purposes and regulated under the Financial Services and Markets Act 2000;**

f) **That the Chairman of the Worcestershire County Council Pensions Committee, or his nominated representative, exercise the Council's voting rights as a shareholder of LGPS Central;**

g) **That the Chief Financial Officer represent the Council on a Practitioners Advisory Forum, providing joint officer support to the Joint Committee and Shareholders; and**

h) **To authorise delegated powers to the Chief Financial Officer to enter into all necessary legal agreements to establish a joint asset pool and investment management company, as outlined in this report, and to agree the Initial Strategic Plan and the Cost Sharing Schedule.**

65 Strategic Asset Allocation Review (Agenda item 6)

The Committee considered the Strategic Asset Allocation.

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

- The approach taken by the Shadow Pensions Committee three years ago in relation to the Strategic Asset Allocation had been successful in that the Actuary had not raised any issues with the Fund. It made sense to continue with the same approach albeit with a reduction of volatility risk as a result of investment in property and infrastructure. It was also clear that smart beta passive investment funds had generally outperformed market capitalised trackers over the investment period and this approach should continue and be expanded

- In response to a query about property investments, the Chief Financial Officer commented that Bfinance had undertaken a search of potential Fund Managers. Where property investments were open for further investment, the Fund could choose to top up dependent on the performance of the market and further work by a Search Consultant that would be commissioned
- The speed at which funds had been drawn down was more surprising. The Chief Financial Officer advised that very often market conditions determined when it was appropriate to draw down funds and that property allocations would be fully deployed within the next investment cycle.

RESOLVED that:

a) The allocation to Infrastructure or a mix of Infrastructure and Real Estate be increased by 5% from the current strategic allocation of up to 10% of the Fund to 15%;

b) The Chief Financial Officer be granted delegated authority in consultation with the Chairman and Vice-Chairman of the Pensions Committee to procure appropriate investment managers to secure increases to existing investments or enter into new investments;

c) The Fund's existing investment into both Property and Infrastructure result in Capital distributions in between Strategic Asset Allocation reviews as the capital element of those investments be depreciated;

d) A "rolling" investment programme be introduced for Property and Infrastructure investments to reinvest distributions that are received in that way in order that actual investment in this asset class is maintained at the levels up to those indicated in this Strategic Asset Allocation;

e) The Fund's allocation to alternative indices be increased by 5%, which is conditional on recommendation 'f', from the current

strategic allocation of up to 10% of the Fund to 15% equities allocation;

f) **Fund officers be authorised with the support of the Fund's current alternative indices investment Manager, Legal and General Asset Management, to also consider the appropriate balance of alternative indices to support the Fund's investment objectives. The 5% increase to alternative indices, recommendation 'e', is to be conditional on the Chair of the Pensions Committee approving the proposed balance of alternative indices;**

g) **To fund the above structural asset allocation changes the asset allocation structural changes be implemented through an overall 2% reduction to each regional market capitalisation indices passive and active Equity allocation;**

h) **The Strategic Asset Allocation to North American Equities be returned to Passive Management;**

i) **The Fund's current global corporate Bonds strategy be maintained;**

j) **Tolerance ranges as set out in Table 1 of the Appendix be implemented and maintained to allow the required portfolio flexibility;**

k) **The Pension Investment Advisory Panel be tasked with overseeing further due diligence to be carried out on JP Morgan to confirm the application of their style given the slight bias to growth since 2010 indicated within this review;**

l) **A review of the Fund's exposure to currency and inflation risks be carried out at appropriate intervals, given the global nature of the Fund's investments as well as the bias towards Equities;**

m) **A review of regional Equity weightings and the Fund's Bonds Strategy be carried out before assets are transferred to LGPS Central Pool. Once transitioned to the Pool, a review of regional Equity weightings is recommended to form part of a more dynamic approach to asset allocation undertaken by the Pension**

Committee; and

n) **The Bonds Investment Strategy be reviewed before transitioning assets into LGPS Central Pool.**

66 Actuarial Valuation (Agenda item 7)

The Committee considered the results of the Actuarial Valuation and the Funding Strategy Statement (FSS).

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

- The Chief Financial Officer commented that the position of the Fund reported in the FSS was similar to that reported to the Shadow Committee three years ago. In relation to the Actuarial Valuation, the Fund's funding level had increased from 69% funded at 31 March 2013 to 76% at 31 March 2016. Total contributions were expected to increase for 2017/18 above those planned following the 2013 Actuarial Valuation by £1.0m (£87.6m compared to £86.6m). The main reason for this improvement had been the change in the way liabilities were calculated which should lead to less volatility in the future. It was important to strike the right balance between prudence and optimism in relation to the performance of the Fund
- In response to a query, the Chief Financial Officer explained that the change from using gilt rates to CPI+ in terms of calculating liabilities would result in a one off gain in funding levels and potentially less volatility in the future according to the Actuary. An increase in the CPI+ rate would result in a reduction in the Fund's liabilities
- A concern was expressed that the improvement in the funding level was as a result of changes in the actuarial assumption rather than the actual performance of the Fund or changes in life expectancy. Cleary changes to actuarial assumptions could only be undertaken on a limited number of occasions. The Chief Financial Officer acknowledged that the potential for any changes significant actuarial assumptions in the near future were less. He also highlighted that the Fund's recovery period had reduced to 18 years to support smoothing of contributions.

RESOLVED that:

a) **the results of the Actuarial Valuation be noted;**

and

b) the Funding Strategy Statement be approved.

67 Administering Authority - Administration update (Agenda item 8)

The Committee considered the administering authority – administration update.

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

- The Consultation document on the introduction of new regulations in respect of the introduction of a 'cap' on exit payments is awaited, although it is understood that the Government is still aiming for an April 2017 effective date. The HR/OD Service and Commissioning Manager indicated that it was anticipated that the legislation would place a termination cap of £95,000 on an individual's total retirement package including actuarial strain. Currently the LGPS Regulations do not provide for a member who is dismissed and over the age 55 years to defer release of pension benefits and it is hoped that changes will be considered and further consultation undertaken to ensure that the LGPS sits more in line with the new Regulations
- Information on the changes would be provided to all members of the Fund who were due to leave the authority
- What discrepancies had emerged as a result of the data cleansing of data received from HMRC? The HR/OD Service and Commissioning Manager indicated that an example would be where HMRC held a record and the Pension Fund did not hold the same information. If the record was not corrected as part of the reconciliation exercise that employee's benefits would be locked into receiving payments from the Pension Fund even if they were a member of an alternative Fund.

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

68 Pension Fund Investment update (Agenda item 9)

The Committee considered the pension investment update.

The Chief Financial Officer introduced the report and commented that the value of the Fund in the quarter had risen to £2.237bn, an increase of £171m compared to the end June value of £2.066bn. He was recommending that Nomura were taken off 'watch' on the basis that they had outperformed their target over the last year and showed sustained improved performance over the past 3 years. He was recommending that JP Morgan Emerging Markets and JP Morgan Bonds remained on 'watch' due to concerns about their performance and operating methods. Although Schroders had had a difficult last quarter, they had performed consistently well over the longer term.

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) **Nomura be taken off 'watch'.**

The meeting ended at 3.25pm.

Chairman …………………………………………….