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Pensions Committee
Wednesday, 27 April 2016, County Hall, Worcester - 2.00 pm

Minutes

Present:

Mr R W Banks (Chairman), Mr A I Hardman, 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 3 February 2016 (previously circulated).

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

34 Named Substitutes (Agenda item 1)

None.

35 Apologies/ Declarations of Interest (Agenda item 2)

Apologies were received from Mr R J Sutton.

Mr R J Phillips declared an interest as a member of the LGPS Advisory Board.

36 Public Participation (Agenda item 3)

None.

37 Confirmation of Minutes (Agenda item 4)

RESOLVED that the Minutes of the meeting held on 3 February 2016 be confirmed as a correct record and signed by the Chairman.

38 LGPS Asset Pooling (Agenda item 5)

The Committee considered the preferred pool structure for the LGPS Asset Pooling arrangements.

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

- The Pension Fund's Strategic Asset Allocation currently exceeded the Government's current implied target - 4% level of investment in Infrastructure

- The Government had provided a strong steer that it believed that the Combined Asset Pool (CAP) would not be a workable approach to pool governance
- One Fund – one vote remained a key principle of the LGPS Central pool
- Each pool was required to provide the Government with its proposed structure, an implementation plan and a robust business case by July 2016
- All cost forecast to be incurred prior to July 2016 with regard to developing the pooling arrangements were within the Chief Financial Officer's delegated spending limits as set by this Committee
- The first key decision that the Committee would need to make concerned the legal and governance structure for the Pool. Eversheds were recommending a Collective Investment Vehicle option rather than a Combined Asset Pool option. Under the CIV governance arrangements, assets would be held in the Pool and each Pension Fund would be able to buy individual units. The CAP governance structure would involve collective procurement arrangements and although the Pension Fund retained ownership of the assets, it would require FCA registration
- Officers reconfirmed that they had a close working relationship with colleagues in other Pension Funds within the proposed LGPS Central asset pool and therefore it seemed appropriate to join up with this pool of like-minded bodies
- Officers from the different Pension Funds within the Central Pool had agreed that the CIV was the most appropriate governance structure for the Pool at a fund level or were taking that proposal to their fund governance at the same time we were
- The Government was considering creating a separate pool to hold infrastructure investments. Other pools would then be allowed to access it. Roger Phillips added that the LGA had queried with the Government how an infrastructure pool would operate
- The possible draw backs of entering into a CIV governance structure was that it would be more expensive to operate under FCA regulation, the potential impact on staff, the dilemma as to whether to develop an in-house CIV or buy one "off the shelf", and the need for appropriate

procurement arrangement for contracts
- The benefits of the CAP governance structure was that it would be cheaper to operate, the Pension Fund maintained control of its assets and although there would be limitations over the long term they would not be as great as under a CIV governance structure
- The Government had indicated that as a minimum it would wish to see a single entity at the heart of any proposals for pooled assets
- Deloitte, supported by Eversheds had been employed to look at the options for buying or buying, renting or developing LGPS Central's own CIV. A business case was being developed and a number of workshops would be set up
- A meeting of Section 151 officers had been arranged together with Pension Committee Chairmen. It was anticipated that a draft business case would be determined by 16 May with the final version completed by mid-June.

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

- The proposals for the asset pooling appeared to focus more on reducing costs rather than improving investment performance. The Chief Financial Officer indicated that one of the four criteria for establishing an asset pool was excellent value for money and it was anticipated that the pool would improve investment performance and at the very least maintain existing performance
- What approach would be taken by the asset pool towards investment management? The Chief Financial Officer explained that the procurement of investment managers was a matter for the Pool to determine and develop an implementation plan accordingly. Worcestershire Pension Fund's role would be to set the strategic asset allocation. It was the Pool's responsibility to achieve improved investment performance. It was therefore important to have the appropriate governance arrangements in place
- In response to a query, Roger Phillips stated that the Government's level of commitment to asset pooling had not changed. They still had the same fiduciary duty to ensure sound investment
- Did the other Pension Funds within the Central Pool have a similar approach to investment management? The Chief Financial Officer

indicated that it was not possible to confirm at this stage but more information should be available for the next meeting of the Committee

- Concern was expressed that the proposed arrangements for an infrastructure pool could lead to deals being done behind closed doors. In response it was commented that the argument for the creation of such a pool was to create economies of scale and maintain or improve transparency
- Did the decision to buy, build or rent a CIV have implications for staffing arrangements? The Chief Financial Officer advised that renting a CIV could lead to staff transferring to the operator dependent upon the particular structure in the existing CIV. Details of these arrangements will be considered by the Eversheds and Deloitte work
- What would happen if the Pension Fund decided not to change its current arrangements? The Chief Financial Officer stated that there was may be an argument for retaining the status quo as it may be difficult to improve upon the existing procurement arrangements that had been negotiated on behalf of the Pension Fund. The challenge was to show that in the long term the pooled asset proposals would not only cover its operating costs but show increased savings and improved performance
- How long did the Pension Fund need to commit to a particular pool and was there flexibility to leave and join another pool if performance was not as desired? The Chief Financial Officer stated that the length of the commitment to the pool would be determined by the business case. However it was important to show a degree of commitment to the pool to avoid putting the pool at risk by destabilising it. In addition, the move to another pool would not guarantee the Pension Fund a role in that Pool's Governance process
- It was clear that the Government steer and officer advice was that the CIV was the most appropriate governance approach for the Central pool.

RESOLVED that:

a) **The LGPS Asset Pooling Report be noted; and**

b) **The CIV structure (option 1) be approved as the preferred pool structure and the Chief Financial Officer be authorised to support the development of the submission of the Pool to Government on that basis.**

39	**Pension Investment update (Agenda item 6)**	The Committee considered a Pension Investment update. The Chief Financial Officer introduced the report and made the following comments: • Nomura had been moved from being formally 'on watch' to 'being monitored' given the improvement in performance, however this trend needed to be sustained. A number of changes had been made to their team, particularly the change of manager which had improved the level of confidence in their work. Although performance had improved recently, it was still not sustained over a longer period and therefore their performance should continue to be monitored • Capital International had been underperforming over a 10 year period. They tended show the same pattern of performance whereby they recovered slowly from a period of poor performance but then failed to maintain that level of performance. They had been asked for a sustained improvement in performance but this had not materialised. Confidence had been lost in the way the investment decisions were made and their decision-making processes. It was recommended that its mandate be withdrawn and that the funds be placed in passive investments in the US under management by LGIM pending a review within the Strategic Asset Allocation later in the calendar year • The performance of JP Morgan – performance had shown some improvements but it was recommended that they remain 'on watch' • JP Morgan – Bonds always achieved above benchmark but not above their performance target. They had argued that they had justified their fee but this was not felt to be the case. The Asset Allocation and manager role would be reviewed within the Strategic Asset Allocation • The contracts had been signed with the Walton Street Fund committing the remaining £27.5m out of the original £200m allocation to Property and Infrastructure. In the ensuing debate, the following principal points were raised: • Capital International did not seem able to sustain any consistent winning performance and

therefore it was appropriate to end their mandate

- In response to a query about whether the performance of Capital International was sufficiently poor to justify termination, the Chief Financial Officer explained that Capital International had a target to outperform the benchmark by 1 ½% over a 3 year period. However Capital had struggled to achieve this and at some times were not even achieving performance that would have been achieved in a Passive delivering tracker fund. The reason that their performance in absolute terms was above the performance of the LGIM portfolio was that the US market had gone up and therefore there was more absolute return in the US portfolio, however their active management had not delivered the performance target. At present, it was recommended that the funds remain in the passive market until a decision was made in the autumn whether to reinvest in the US market in an active sense.

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;

c) the recommendation from the Pension Investment Advisory Panel to terminate the Capital International mandate be approved with assets transitioned to the North America section of the LGIM passive equity portfolio; and

d) the update on the appointment of Walton Street be noted.

40 Administering Authority - Administration update (Agenda item 7)

The Committee considered the Administering Authority – Administration update.

The HR Service Centre Manager introduced the report and made the following points:

- The increase in membership was as a result of members not choosing to opt out of the scheme following the introduction of auto-enrolment. It was anticipated that due to transition arrangements there would be an increase in the number of members in the current cycle up to 2017

- From 6 April 2016 the LGPS was no longer contracted out. Members and employers would no longer receive the NI rebate and would see a rise in NI contributions
- Employers had been requested to forward their End of Year returns to the Pension Fund by 30 April 2016. Employers have been advised that the Pension Regulator would be informed where an employer had not completed the Annual Benefits Statement which could result in a fine which the Fund would pass onto the Employer
- A good response had been received from employers, particularly from Academies to the request for information for the Pension Fund Valuation. Mercers had looked at the key changes to the Valuation of liabilities and provided a more reasonable assessment. This had been explained to employers
- Work had been carried out with the Department of Work and Pensions to devise a 'Tell Us Once' system which would reduce administration for grieving relatives and reduce the level of administration costs
- A newsletter for employees and employers had been devised in liaison with partner funds. It was intended that the formatting and feel of the newsletters would be improved to make it more appealing to members. Discussions were being held with the Brand Manager to establish a logo for the Fund
- Following an options appraisal, the Head of HR and Organisational Development and Chief Financial Officer would determine the best option for Member Self-Service. Member Self-Service would have a positive impact for the Administering body in terms of reduced costs and for members in terms of their ability to access information
- Following feedback from employers at the Administration Forum, the Administering Authority was currently developing a new workshop for new employers. The workshop would enable the Administering Authority to explain the roles and responsibilities of the Fund and the new employers, to share information about key activities which take place during the year and be an opportunity to meet key staff.

In the ensuing debate the following principal points were raised:

- What was the biggest/most difficult challenge facing the administering authority? The HR Service Centre Manager explained that the changes to the administration of the fund as a result of the introduction of the CARE regulations had been a particular challenge as well as explaining the changes to members
- Were there implications for the Administering Authority of providing individual pension statements for members? The Chief Financial Officer stated that it was possible that the administration requirements would increase and that the current cost of the service could not be maintained.

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

The meeting ended at 3.25pm

Chairman …………………………………………….