

Pensions Committee**Monday, 19 March 2018, County Hall, Worcester - 10.00 am****Present:****Minutes**

Mr R W Banks (Chairman), Mr A I Hardman,
Mr R C Lunn, Mr P Middlebrough and Mr P A Tuthill

Co-opted Members (voting) – Mr V Allison (Employer representative), Mr A Becker (Employee representative)

Available papers

The members had before them:

- A. The Agenda papers (previously circulated); and
- B. The Minutes of the meeting held on 1 December 2017 (previously circulated).

110 Named Substitutes (Agenda item 1)

None.

111 Apologies/ Declarations of Interest (Agenda item 2)

An apology was received from Mr R J Phillips.

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

112 Public Participation (Agenda item 3)

None.

113 Confirmation of Minutes (Agenda item 4)

RESOLVED that the Minutes of the meeting held on 1 December 2017 be confirmed as a correct record and signed by the Chairman.

114 Administering Authority - Administration Update (Agenda item 5)

The Committee considered the Administering Authority – Administration update. The details were set out in the report.

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

- In response to a query, Bridget Clark, HR Service Centre Manager commented that the increase in membership brought about mainly through auto enrolment had been experienced by all employers within the Fund. She anticipated that the increase

would not continue to increase at the same level in respect of deferred members in the future as a result of the change to the 2013 regulations which provides for members who leave the scheme with less than 2 years membership to receive a refund of contributions rather than create a deferred pension benefit

- Were officers confident that Liberata would be able to provide the necessary year-end information on time? Bridget Clark responded that Liberata had a dedicated team working on the Pension Fund. Additionally, Sue Alexander, the interim Chief Financial Officer was having daily meetings with senior officers at Liberata. She was therefore confident that end of year timescales would be met. Sue Alexander added that Liberata had been very responsive to the demands for the necessary information
- The Chairman indicated that this was the last meeting of the Committee that Sue Alexander would be attending as Interim Chief Financial Officer and he thanked her on behalf of the Committee for her contribution.

RESOLVED general update from the Administering Authority be noted.

115 Pension Investment Update (Agenda item 6)

The Committee considered the Pension Investment update. The details were set out in the report.

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

- Philip Hebson commented that since the last meeting, the value of the Pension Fund had increased to approximately £2.8bn. There was no way of knowing at this stage if the Fund had reached its peak value. However this was a healthy position particularly in respect of the funding level which was no longer in deficit. River and Mercantile had taken advantage of the volatility of the recent markets to increase the level of downside equity protection. The Committee should be aware that its approach to putting Managers 'on watch' amounted to a public naming and shaming exercise and might wish consider reviewing this approach
- In response to a query about JP Morgan, Philip Hebson explained that the perception in the market of JP Morgan's approach to managing assets was improving

- Now that the deficit had been eradicated, would employers be in a position to be able to reduce back-funding? Philip Hebson commented that there were a number of variables to consider before making such a decision, in particular the assumptions made by the Actuary and he would caution against undertaking such an approach
- It was difficult to monitor performance of managers in emerging markets due to the nature and variables of that particular market place.

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.**

116 Alternatives Investment (Agenda item 7)

The Committee considered the approach to Alternatives Investment. The details were set out in the report.

In the ensuing debate the following principal points were raised:

- As LGPS Central would be responsible for the selection of managers to oversee the different investment areas from 1 April, why was the Fund looking at further investment at this stage? Rob Wilson advised that these proposed investments were in line with the Fund's investment Strategy and would form part of the discussions with LGPS Central regarding its approach to managing the Fund's portfolio in the future. Philip Hebson added that this investment formed part of a rolling programme of investment and it was important that the Fund continued with business as usual within certain parameters until LGPS Central assumed responsibility
- Had the ethical guidelines in relation to investments in fossil fuels changed? Philip Hebson advised that previous guidance stipulated that Funds had a fiduciary duty to maximise returns for their members. However the rules had changed which watered down slightly this fiduciary duty and created a degree of ambiguity around investment in fossil fuels
- How vulnerable was the Fund to single events as a result of its investments in the bonds market?

Philip Hebson advised that the approach taken was to ensure that not too much of the Fund's investment was exposed to a particular investment class without being aware of the risks. It was the responsibility of investment manager to assess the appropriate level of risk exposure. It should be noted that investment in bonds was less risky than equity investment.

RESOLVED that:

- a) the commitment of £25m to Hermes Fund II be approved, following the appropriate due diligence undertaken by Bfinance and sign off by the Pensions Committee Chairman; and
- b) A £65m allocation to a new corporate private debt mandate with EQT and associated amendment to the Fund's Investment Strategy Statement be approved.

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 item 8 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. (This is a fair summary of the proceedings and there are no exempt minutes.)

117 Equity Protection Strategy (Agenda item 8)

The Committee considered the Equity Protection Strategy. The details were set out in the report.

The Committee received a presentation by Mark Davies and Jason Wood from River and Mercantile.

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

- Mark Davies explained that the Equity Protection Strategy had been implemented according to plan at the appropriate price. The process had been split into three smaller more manageable tranches. This allowed the counter-party to be able to off-load risk as necessary. In addition, as a

result of the volatility of the market, an increased level of downside equity protection had benefited the Fund

- In response to a query, Mark Davies explained that in a volatile market, investors became more anxious and as a result it was beneficial to take on more risk and this afforded more equity protection
- In response to a concern about the Synthetic Structured Equity approach, Mark Davies explained that this approach provided the necessary collateral protection for the Fund, through a package of gilts, to give the counter-party the assurance that the Pension Fund could offset that risk
- In response to a query about the use of counter-parties, Mark Davies explained that it was important to negotiate with more than one counter-party but not too many. The trade was selected on the basis of the cheapest price available. It was therefore beneficial to create a price tension between a small number of counter-parties without making too much information about the Strategy available to the wider market which would be counter-productive.

RESOLVED that the implementation of the Equity Protection Strategy update be noted.

118 LGPS Central Update (Agenda item 9)

The Committee considered the LGPS Central update report. The details were set out in the report.

The Committee received a presentation by the Non-Executive Chair, Joanne Segars and Chief Executive Officer, Andrew Warwick-Thompson of LGPS Central.

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

- Was it reasonable and sensible to set up the LGPS Pooling arrangements in such a short timeframe? Joanne Segars acknowledged that the timescale was short however she would not have agreed to the activation of the Pool arrangements on 1 April if she did not think that everything was ready and in accordance with the necessary financial regulations. Andrew Warwick-Thompson added that it was not possible to take over the whole £40bn investment from the outset but instead a rolling programme of investment would be introduced
- In response to a query about the decision to

maintain split site offices in Wolverhampton and Matlock, Derbyshire, Joanne Segars explained that the split site arrangements had been introduced largely to coincide with the location of existing staff members. This approach would be reviewed in the future

- Due to the geographical location of the offices, there was an impression that the culture of the Pool would be dominated by the West Midlands and Derbyshire Pension Funds. In response Joanne Segars commented that she was very clear that the Central Pool was not the West Midlands Pension Fund but a new entity and this was the approach being taken
- In relation to the governance and ethos of the Pool, was it anticipated that the Shareholders Forum would have an influence over the Board and its thinking? Andrew Warwick-Thompson responded that the initial focus had been on the Derbyshire and West Midlands Pension Funds out of necessity because they were the first funds to be launched. All the executive team had been recruited from outside those funds and of the Investment Directors, roughly half had been recruited from partner funds and half from the private sector. It was anticipated that as product development progressed, partner funds, who had not been as involved up to now, would be brought into the process. The importance of meeting the objectives of all partner funds going forward was recognised
- In response to a query, Andrew Warwick-Thompson commented that the Pool would be providing an advisory service on all investment matters to all partner funds. This service could be extended to cover governance issues if desired
- There was no position set aside within the structure of the Pool, with direct responsibility for communications. Joanne Segars explained that communication was the responsibility of all Board members. She added that she was keen to work with all elected members and Shareholder representatives
- There was a degree of uncertainty about the scale of the cost of the transition arrangements. Would the Pool be appointing transition managers on a case-by-case basis? Andrew Warwick-Thompson responded that the best practice advice suggested that different transition managers should be appointed. Help would be provided but the intention was for individual funds to have access

to a framework which would help match them with the appropriate transition managers

- Was it intended to manage passive investments internally? Andrew Warwick-Thompson advised that this was a possibility, depending on the business case and the level of expertise available internally
- In response to a query, Andrew Warwick-Thompson indicated that the most challenging aspect of the key deliverables for 2018/19 related to the Product Development and Delivery Plans 2018/19 – 2020/21. It was important to establish a common approach to reporting and development suites. In addition, the right people needed to be engaged to ensure that the product development was not too painful and tortuous and ensure that the appropriate product services were available to achieve cost savings. Joanne Segars added that it was also a priority to recruit staff as quickly as possible
- Would the Pool be taking account of the requirements and approach to investment of individual funds? Andrew Warwick-Thompson commented that a transitional plan had been submitted to the FCA although it was acknowledged that strategy reviews had taken place since that submission. It was therefore important to talk to individual funds about their current strategies and determine which ones to prioritise and promote with commonality. It was anticipated that by May 2018 all the investment management positions would be recruited. Conversations would then be held with Worcestershire Pension Fund on a regular basis
- In response to a question, Andrew Warwick-Thompson explained that in order to achieve the proposed cost savings, a limited number of products/services would be introduced. There would be discipline over the number of new products/services introduced and those subsequently relinquished. Joanne Segars added that the Pool had responsibility for asset management whereas the pension funds would oversee asset allocation
- The monitoring of the performance of the Pool would be an important challenge for the organisation. Andrew Warwick-Thompson responded that the Pool's performance and parameters would be continuously monitored
- Worcestershire Pension Fund had placed an emphasis on risk management to ensure that risks

were appropriately balanced within its asset allocation. Would the Pool be taking a similar approach? Andrew Warwick-Thompson advised that the Pool would be looking to mix and match products to achieve the appropriate level of risk tolerance for each client Pension Fund.

RESOLVED that:

- a) **The LGPS Central Update be noted; and**
- b) **The LGPS Central presentation be noted.**

The meeting ended at 12.45pm.

Chairman