

Minutes of Shadow Pension Committee

**Redditch Room, County Hall
8 April 2015**

Present:

Cllr Adrian Hardman (Chair)	Sean Pearce, WCC
Vic Allison, Employer Representative	Mark Forrester, WCC
Cllr Luke Mallett	Bridget Clark, WCC
Cllr Roger Sutton	Linda Probin, WCC
Cllr Paul Tuthill	Debbie Lee, WCC (Minutes)

1. **Apologies** – Cllr Philip Gretton, Cllr Roger Phillips (Herefordshire Council) and Adrian Becker (Employee Representative).
2. **Minutes of the Shadow Pension Committee 12 December 2014** – Action point 5.7 – this will be picked up in the agenda to include historical bar chart. Action point 5.10 re strategic allocation will also be picked up in the agenda.

Minutes of the Shadow Pension Investment Advisory Committee 27 November 2014 – The Minutes were duly agreed.

3. **Pension Fund Governance Arrangements (Appendices 1 and 2)**
 - 3.1 On 12th February 2015 Council approved new governance arrangements for the fund. A Pensions Committee will be established from 1st June 2015 to discharge the responsibilities of the Council as Scheme Manager of the pension fund. The Pension Committee will be a decision making body. A Pension Board will be established from 1st April 2015.
 - 3.2 The Pension Committee, at its first meeting in June, will be asked to approve the appointment of a Chair and Vice-Chairman. Mr Pearce indicated that the Committee will need to be politically balanced as a formal committee of the Council.
 - 3.3 The governance Structure will be similar to the shadow arrangements that have been in place for over twelve months, with the exception of the new Pension Board. The Pension Board will oversee, review and scrutinise, but will not have decision making powers. The Pensions Investment Advisory Panel and Pension Administration Forum will support the Pension Committee in its decision making duties.
 - 3.4 The Pension Committee will be a formal committee of the Council and will comprise a total of 8 voting members:
 - 5 Worcestershire County Councillors
 - 1 co-opted Councillor as nominated by Herefordshire Council (being the second largest employer in the Fund)
 - 1 co-opted voting employer representative and
 - 1 co-opted voting employee representatives from a relevant Union

3.5 Terms of Reference of the Pension Committee:

- Changes to the Statement of Investment Principles, including the strategic benchmark for asset allocation, Investment Manager benchmarks and Investment Manager targets.
- The termination and appointment of Investment Managers and associated professional service providers.
- The termination and appointment of the Fund's Independent Financial Adviser, Performance Measurement Consultant, Global Custodian and Actuary.
- The Pensions Administration Strategy Statement, Policy Statement on Communication Strategy, Policy Statement on Governance Strategy, Funding Strategy Statement and Governance Compliance Statement.
- The Triennial and Interim Actuarial Valuations.
- The approval of the Pension Fund Annual Report and Accounts.
- The approval of the Pension Fund annual and triennial budgets.
- Key outstanding risks as identified in the Pension Fund Risk Register.
- The Pension Administration Advisory Forum arrangement and regular Forum reports, which consider and address outstanding member and employer issues and concerns.
- The Pension Investment Advisory Panel arrangement and regular Advisory Panel reports, which monitor performance of the Fund's assets.
- Requests for admission of qualifying Community and Transferee Bodies wishing to join the Fund.
- Key pension policy discretions that are the responsibility of the Administering Authority.

3.6 In terms of delegation; the day-to-day administration and management of the Fund will remain the responsibility of the Chief Financial Officer. The Governance Policy Statement lists a range of duties delegated to fund officers.

3.7 The Administering Authority will ensure that those involved in the decision-making process are able to gain the appropriate level of knowledge and skills to discharge their role effectively. Committee members and appropriate fund officers will be required to complete an annual knowledge and skills self-assessment form. Fund officers will then produce individual training plans involving internal and third party training.

3.8 Mr Pearce talked through Appendix 2 and in particular the Core functions of the Pension Board. The first core function of the Board is to assist the Administering Authority in securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme. The second core function of the Board is to ensure the effective and efficient governance and administration of the Scheme.

3.9 With regard to the appointment of an Independent Chairman for the Pension Board, Mr Pearce reported that the fund would advertise for the appropriate candidate and the successful applicant would be formally appointed by the Board in June.

- 3.10 Mr Allison spoke about the relationship between the Board and Committee. He understood the role of the Board to be one of assistance and scrutiny of the Committee and asked that as a matter of course, the Committee see the internal and external audit reports looked at by the Pension Board. Mr Pearce was in agreement.

4. Pension Investment Update (Appendices 3, 4, 5 and 6)

- 4.1 At the last Pension Committee meeting it was reported that JP Morgan (Emerging Markets), Capital International and Nomura were 'on watch' due to performance concerns. JP Morgan and Capital produced better results in the quarter ended December 2014. The Principal Accountant – Pension Fund had carried out visits to JP Morgan and Schroders to access their controls, processes and investment thesis, which were detailed in the appendices. Mr. Pearce made the Committee aware that a similar exercise would be undertaken with regard to Capital International. Mr Pearce talked through the bar chart (Appendix 4).
- 4.2 Since inception Capital have performed slightly below benchmark and therefore are far behind their performance requirement of +1.5% above benchmark per annum.
- 4.3 Since inception Nomura have also performed slightly below benchmark but since 2011/2012, as a result of work with fund officers, Nomura have replaced key investment staff to help improve returns.
- 4.4 Mr Pearce indicated that a decision on Capital's contract continuance should be taken in June 2015 when their discounted fee period comes to an end.
- 4.5 Cllr Mallett said that he was quite surprised that very few fund managers have achieved their performance targets in a rising equity market.
- 4.6 In response to a question from Cllr Mallet querying whether the fund's active managers had been a net cost to the fund, Mr Pearce explained that if the managers had achieved their targets, then the benefits would far outweigh the costs. When managers have underperformed, fund officers have been successful in negotiating fee discounts, so that the cost of to the fund is reduced. Over the past three years a significant percentage of the fund's assets have been moved to passive management, especially in developed efficient markets. The fund is also diversifying into pooled property and infrastructure funds.
- 4.7 Cllr Tuthill said there was a high degree of risk and volatility in emerging markets and trackers tend not to work. Good managers are hard to find and risk increases by investing into countries outside the UK. Mr Pearce reported that a significant proportion of the fund's assets are invested in overseas equities to add diversification. The fund takes independent financial advice and emerging markets has been a good place to be in the past ten to twelve years.
- 4.8 Cllr Sutton asked about the current strategic asset allocation for the fund. Mr Pearce referred to Appendix 3, which provides an overview of the Fund's asset allocation. Cllr Hardman commented that the high value / low return of government bonds, in particular, has to be a cause for concern going forwards. If interest rates start to rise this will have a negative impact on bond values.

- 4.9 Cllr Hardman spoke of Nomura possibly actively managing Australia within their portfolio once again. Mr Pearce reported that Nomura had previously performed very poorly in Australia. Nomura have asked for permission to return to active management in Australia and based on their recent outperformance and management changes, the Shadow Pension Investment Advisory Committee saw no reason to object.
- 4.10 Cllr Hardman reported that the investment update was duly noted.

5. Pooled Property and Infrastructure Funds Procurement (Appendix 7)

- 5.1 As part of the strategic asset allocation review held in November 2013, it was agreed that 10% of the fund's equity holdings would be transitioned into pooled infrastructure and property funds. As a result BFinance were contracted to assist with the tender.
- 5.2 Following a competitive tendering process the Shadow Pension Investment Advisory Committee agreed a total allocation of £200m to be invested in a number of managers; Green Investment Bank, Venn, Hermes, Invesco and Renshaw Bay. Renshaw Bay's Chief Executive was then appointed as CEO to Standard Chartered Bank, which was deemed to materially impact the investment thesis in the pooled fund. After considering all alternative options it was agreed to take the proposed allocation of £27.5m off the table for the time being.
- 5.3 Mr Allison queried how the officers determined the optimal investment amounts to each for the proposed pooled funds. Mr. Pearce reported that the blended target return was 7%-8% and each fund had a different target net IRR, risk profile and fee, which were stepped at different allocation amounts. BFinance then devised a model to gain the optimal allocation.
- 5.4 These points were duly noted.

6. Fossil Fuels Disinvestment – Public Query

- 6.1 Cllr Mallett said that there is a tension between our socially responsible investment policy and the socially responsible duties of the Council. Before members reach a conclusion we should see the evidence for and against investment stacked up. This Council promotes health and wellbeing and unless we can be assured that disinvestment would be to the financial detriment to the fund then socially responsible investment should be the priority.
- 6.2 Cllr Hardman disagreed and reported that fund managers take into account the financial and socially responsible aspects of investment decisions through their investment processes and controls at an individual stock level. There is a danger in identifying the Council and the Pension Fund as being one and the same. Imposing a fossil fuel disinvestment overlay on the fund could financially disadvantage the fund and therefore be an additional cost to the taxpayer over the long term.

6.3 Mr Pearce reported that the people who are best able to consider which companies and organisations to invest in for the financial benefit of the fund are the fund managers.

6.4 Cllr Hardman reported that the Committee agreed to maintain its current socially responsible investment policy as detailed in the fund's Statement of Investment Principles, which is in-line with the most recent QC opinion. Cllr. Mallett's concerns were noted by the committee.

7. **Pension Administration Update (Appendix 9)**

7.1 Bridget Clark introduced Linda Probin (Pension Administration Manager) to the Committee, who then talked through the Administration Update.

7.2 Linda Probin explained that the administration of the CARE scheme was a lot more complicated than its predecessor. It is important for the fund to produce benefit statements and annual tax calculations accurately and on time.

7.3 HMRC recently published a pension newsletter outlining action taken on pension scams following the recent legislative changes, which allow fund members of private sector DC schemes to withdraw their pension in full at retirement, instead of purchasing an annuity.

7.4 The employee contribution bandings will be increased for next year and committee members were directed to the bands in the appendix.

7.5 The Pension Fund have received two requests for admission to the fund since the last meeting; one from CAPITA and the other from Hewlett Packard.

7.6 A discussion was held within the committee on auto-enrolment. The fund has seen a small overall increase since its introduction. Cllr Phillips sent his apologies for the meeting but referred in an e-mail to an LGPS report across 89 funds where the number of active members had risen in total by 90,000.

7.7 To date there had not been a significant take up of 50/50 scheme by fund members.

7.8 Bridget Clark reported that the Shadow Pension Administration Advisory Forum will meet on 11 May, in advance of the next Pension Committee.

8. **Next meeting**

The Committee will next meet on 10 June 2015 at 10.00 a.m.