

**Pensions Panel
Part I Draft Minutes
22 July 2015**

Introductions

1300. Apologies were received from Mr. Peters.
1301. The Chairman welcomed Steven Law and Lorna Lyon from Hymans Robertson to the meeting and announced Gordon McAra's appointment to the Pensions Panel following Mr. Smith losing his seat during the recent elections.
1302. The Chairman advised that Ian Barnes, Nick Irish and Steve Magill from UBS would be joining the meeting to update the Panel on their performance and noted that Richard West would be retiring from UBS later this year, and Steve Magill would be stepping up within the UK equity team. Aberdeen would be joining the Panel for lunch to update employers on their active first year.
1303. Dr. Walsh requested that the start time for the Pensions Panel was formalised in line with other County Council Committees to start at 10:30. This was noted for future meetings.
1304. Mr. McAra declared an interest as a Chichester District and Midhurst Town Council Councillor. This would be noted as a standing declaration.

Minutes – Part I

1305. The minutes were agreed.

Annual Report & Accounts

1306. The Head of Corporate Finance introduced the Report. The report for this year has been substantially amended in response to CIPFA requirements.
1307. The Pensions Panel suggested Paragraph 98, which shows annual returns, would be of interest this afternoon by employers and to County Council.
1308. The Head of Corporate Finance acknowledged that whilst the overall returns were below benchmark in the short term it is still fair to raise that Baillie Gifford were in the fifth percentile when compared to other Local Authorities, that UBS had had a somewhat more difficult period, but this is to be expected with two complimentary managers being appointed, and the property portfolio had suffered in the first year of operation due to the high transaction activity which incurs expenditure and dampens returns. Paragraph 118 set out the longer term returns and illustrated that over 3, 5, 10 and 20 years the Pension Fund is in the top 10% of Local Authority funds.

1309. Officers clarified that although reference has been made within the Annual Report and within the discussion about the Pension Fund's performance relative to other Local Authority funds, it is not the driver for reviewing the managers, setting a benchmark or performance target. Best practice states that the Pension Fund should set an investment strategy to meet its liabilities and should compare itself to the market. The market index is therefore the primary driver for the fund managers behaviour, contractual relationships and review.
1310. The Adviser noted that comparison to private sector schemes was becoming increasingly unhelpful as private sector schemes invest more heavily in bonds and Liability Driven Investment products.
1311. The Head of Corporate Finance concluded by drawing attention to UBS's performance since reappointment, the strong returns for Baillie Gifford, and the wisdom of their reappointment and the beneficial income that stock lending has generated in its first few weeks.
1312. The accounts have been reviewed by RAAC and are now in the process of being audited.
1313. The Chairman commented that it had been another good year in terms of absolute returns with assets increasing by over £300m in a single year, and the Fund had enjoyed a successful start to its stock lending programme.
1314. The Chairman requested that the Pensions Panel gratitude to the Pensions team in producing the report was noted.
1315. The Annual Report was approved with one amendment to clarify Declarations of Interest.

Policy Documents

1316. The Head of Corporate Finance introduced the report.
1317. The additional discretion shown at Paragraph 5 relates to a change which provides the Fund with more flexibility with regard to exit payments. This will be particularly beneficial for town and parish councils who can have a period of no active members but for whom we have a trend of 're-populating' their position within a period.
1318. The amendment shown at Paragraph 6 is to clarify that the Fund can make payment to a person having care of the scheme pensioner or an eligible child.
1319. The second part of this report refers to the Communication Policy Statement and sets out how we will communicate with stakeholders through the website, newsletters and other media.
1320. The discretions policy amendments were approved.

1321. The Communication Policy document was approved.

Pooling

1322. The Head of Corporate Finance introduced the report.

1323. In the Chancellor's summer budget announced on 8th July, George Osborne stated that the Government wants to work with Local Government Pension Funds to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance and local authorities should come forward with their own proposals to meet common criteria for delivering savings.

1324. The Fund has since received guidance from DCLG. It warns that for those administering authorities who do not come forward with sufficiently ambitious proposals, the Government is prepared to legislate.

1325. It is recommended that work be started afresh with like-minded authorities and that early action is needed to explore the Fund's options. Pooling on a voluntary basis may well be preferable to awaiting Government legislation to force our hand.

1326. The Actuary suggested that the statements as they stand at the moment are fairly wide ranging. However it appears that the "active v passive" element of the discussion has gone away. There is a danger that the government may compel along a particular route, but it may be that four or five investment vehicles are created with current managers included on them. However it was important for the Pension Panel to be proactive to choose partners, rather than to have anything forced.

1327. The Adviser suggested that the Pensions Panel should look at working with Funds outside the normal geographical area who use the same managers as WSPF, as well as the possibility of working with neighbours. This would maximise the chances of working with Funds with similar investment philosophies.

1328. The Pensions Panel enquired whether pooling was likely to be 'all' or a proportion of assets. Officers indicated that this was an item that is still up for discussion.

1329. The Pension Panel had considerable reservations about where the current approach taken by Government may end and considered that the current approach went against the localism and devolution agenda. It stressed the importance of beginning political lobbying as appropriate.

1330. The Chairman drew the Pension Panel's attention to their ability to set up working groups and now seemed an appropriate time to use this to look at the options for the Pension Fund and requested emails from Members who would be interested in participating. Whilst there was a degree of urgency

involved, the Chairman advised that meetings would not start until September, during which time Officers could pursue options. It was likely that the working group would meet on up to four occasions.

- 1331. The Actuary warned that fund mergers were still on the table.
- 1332. The Panel noted the Government's view and its intention to consult shortly.
- 1333. The Panel supported a preliminary approach to other Funds to determine how we might be able to work collaboratively.
- 1334. The Panel agreed to a small working group comprising Pension Panel Members being established to support the Chairman and officers in this work and report back to the Panel.

Asset Liability

- 1335. The Head of Corporate Finance introduced the paper by reminding the Pensions Panel of their decision at the previous meetings to the principle of de-risking, the triggers to be adopted and the process to be followed. The Pensions Panel requested some clarification around the process, and this had been reflected at Paragraph 9.
- 1336. In terms of what any de-risking approach would look like in practice, Officers met with the advisers and investment managers on 22 May.
- 1337. UBS have a distinct allocation to gilts and corporate bonds. As such 100% of reduction in equities is proposed to be invested in their corporate bond fund.
- 1338. The Baillie Gifford portfolio is more complicated because their current fund has a strong overweight to gilts which would depress returns over the medium and long term. It is therefore proposed that the Fund moves to the Baillie Gifford 50:50 bond fund when it meets its trigger.
- 1339. It was recommended that it was also appropriate to review the position later this year to decide whether, irrespective of a trigger, the Fund should transition to the 50:50 bond fund on the basis that it was never intended that the Pension Fund would have such an overweight to gilts within the bond benchmark, and the current weighting reflects government activity rather than a consideration by the Pensions Panel.
- 1340. The Head of Corporate Finance also drew the Pensions Panel's attention to the need to re-allocate the 5% target currently invested in private equity and this piece of work should now be commissioned.
- 1341. The Actuary commented that it was the case that the Pension Panel will continually review the investment strategy and therefore irrespective of

what is agreed today, it would not cease the discussion about the most appropriate investment strategy for the Fund.

1342. The Actuary advised that it was entirely appropriate for the Pensions Panel should take some risk out of the portfolio when the Fund is fully funded. At present it is estimated at c.92%.
1343. The Pensions Panel requested that the consultation with employers was in plain English and the background was clearly set out to assist with this being a meaningful exercise.
1344. The process set out at paragraph 9 was agreed.
1345. In the event of de-risking the Pensions Panel agreed:
- a. Within the Baillie Gifford portfolio to sell equities and move the current bond holding plus the allocation from the iBoxx Sterling Overall All Durations benchmark fund to the Sterling Aggregate Bond Fund (which has a 50% allocation to both corporate bonds and government bonds).
 - b. Within the UBS portfolio to sell equities and move the allocation to the UBS Corporate Bond Plus Fund, in which the Fund already invests.
1346. The Panel agreed to consult employers with the consultation period ending on 28 August and all comments circulated to the Pensions Panel thereafter.
1347. The Panel agreed that the position with regard to the Baillie Gifford bond fund was reviewed at the Pension Panel meeting on 6 November 2015.
1348. The Panel agreed that Officers and Advisers should consider opportunities for the 5% of assets previously allocated to Private Equity, which is now being run down.

Business Plan

1349. The Head of Corporate Finance introduced the Business Plan noting that it is a standing item which had been refreshed at the last Pensions Panel meeting to reflect priorities for 2015/16. There are a lot of potential and actual changes to the Pension landscape presently. Freedom and Choice was covered in the training session following April's Pension Panel. Take up has been low but is something Officers will continue to monitor and report on.
1350. The Pensions Regulator is taking a more keen interest in public sector pensions. Paragraph 7 sets out key areas that are on the Pension Regulator's agenda and officers are working through each with Capita to ensure that we meet the expectations.

1351. Added Years has been on the Pensions Panel agenda for a number of months and is a historic issue. Capita and the Council are working together to resolve the position for a remaining few employers, and invoices will be raised once the findings have been agreed. This will put accounts in balance from 2009 to date and any earlier liabilities will be discussed with the Actuary.
1352. The Pension Advisory Board held its first meeting a few weeks ago. The draft minutes have been provided to the Pensions Panel. The Pension Board is keen to review Internal Audit reports as well as Pensions Panel Part II matters to be discussed in Pension Advisory Board Part II (confidential). It is interested in customer satisfaction, complaints processes, communications and the online portal which Officers are working on. The Board Chairman will review compliance of the annual report and accounts and report to the Pensions Panel and the Board has requested an Annual meeting for members.
1353. The Pensions Panel discussed Paragraph 23/24 of the report. Whilst there was a view that providing the Board with access to Part II papers and to attend the Part II section of the Pensions Panel may be important for scrutiny, other Committees within the Council (such as Performance and Finance Select Committee) carried out their work based on formal minutes and papers, rather than via attendance at meetings. It was noted that members of the Pensions Panel had to abide by the Code of Conduct for the County Council in relation to Part II items and it would be important for the Pension Advisory Board members to be subject to the same rule. It was considered that some training would be beneficial to ensure that the Code is followed.
1354. Officers clarified the wording in the draft minutes for the Pension Advisory Board (paragraph 20). The Pension Advisory Board had a requirement under its Terms of Reference to have a very broad and detailed understanding of various pension issues. It was the Board members responsibility to ensure that they had and maintained the appropriate knowledge and understanding requirement and members would be subject to penalties if this was not maintained. It was the intention that the Pensions Panel and the Pension Board could participate in joint training sessions as appropriate.
1355. There was a suggestion that an informal seminar may be beneficial to provide an understanding between both the Pensions Panel and the Pensions Board about how they operate and key priorities.
1356. Officers updated the Pensions Panel on the recruitment of a Scheduled Employer representative (from the Colleges) and on the District / Borough Council representative. Both were with the Director of Law, Assurance and Strategy. The District / Borough Council nomination and election process has been established over a number of years and therefore will be easier to complete. The Colleges have not been approached in the past and

therefore a process needs to be created to ensure transparency and fairness.

1357. The Pensions Panel expressed concerns about the underperformance on the Capita Pension Administration contract. It was important for members to have full confidence in joining the Scheme and there was a risk that the good performance on the investment side was being undermined. The Executive Director agreed that Capita has had difficulty in this area and it was something that had been raised by employers. There are mitigations in place and work has been undertaken to clear the backlog of cases. A report was requested for the next Pensions Panel.

1358. It was confirmed by officers that costs in relation to administering the Pension Fund were charged by WSCC to the Fund at the cost of operation, plus a contribution to overheads where the charge relates to staff members. These costs were then set against employers on a proportional basis.

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