

Minutes: Part 1 Pensions Panel held on 20 April 2015

Attendees: Michael Brown, Nigel Peters, Deborah Urquhart, Andrew Smith, Bernard Smith, James Walsh

Advisers: Caroline Burton (Independent Adviser), Steven Law, Paul Potter, Lorna Lyon (Hymans Robertson)

Officers: Tim Stretton, Steve Harrison, Rachel Wood

Introduction and Welcome

1273. The Chairman welcomed Lorna Lyon back to the Pensions Panel.
1274. Apologies were received from Peter Metcalfe and Daniel Sartin.
1275. The Chairman advised that Michael Jones had resigned from the Pensions Panel. The Chairman would now write to the leaders of all the political groups seeking nominations for Mr. Jones' replacement.

Declaration of Interest

1221. Members and officers were invited to make any declaration of personal or prejudicial interests that they may have in relation to items on the agenda and are reminded to make any declarations at any stage during the meeting if it becomes apparent that this may be required when a particular item or issue is considered.

1222. It is recorded in the register of interests that:

- Mr Brown's son is a Director of Deloitte
- Mrs Urquhart is a Governor of Chichester College and on the Board of the South Downs National Park Authority
- Mr. A Smith is a deferred member of Mercers
- Dr. Walsh is a Member of Littlehampton Harbour Board, Arun District Council and Littlehampton Town Council.

These financial interests only need to be declared at the meeting if there is an agenda item to which they relate.

Approval of Part I Minutes from the Pensions Panel held on 2 February 2015

1276. The minutes were agreed.

Asset Liability Modelling by the Actuary

1277. The Chief Technical Officer introduced the presentation. The report and discussion to follow builds on the work started in autumn 2014

and is looking to reduce the probability of poor outcomes for the Pension Fund, and to maintain a strong funding position over the long term. The process as proposed reflects the Pensions Panel desire that the process for de-risking should not be automatic and instead it is suggested that the Chairman and Executive Director are involved with any decision making.

1278. The Fund Actuary's presentation started by reminding the Pensions Panel of the de-risking (and re-risking) plan which had been agreed previously and suggested that a further review would be carried out once the funding level reaches 105%.
1279. The proposed de-risking process starts with officers monitoring the funding position on a daily basis. Hymans Robertson drew the Panel's attention to their funding analytical tool which provides estimates of assets, liabilities and the resultant funding level on a daily basis. Responding to questions, Hymans Robertson confirmed that the model is based on liabilities at the latest valuation, projected cash flows and actual asset fund returns a quarter in arrears plus index returns for equities, bonds and property (the latter being a monthly estimate).
1280. It was clarified that "officers" referenced in the process would be Rachel Wood as the Pension Fund Strategist, or Project Accountant – Pensions when absent to ensure a daily check.
1281. It was agreed that there should be a presumption that de-risking should take place. It would only be if the funding level had increased due to unusual, artificial or a particularly strange market that this view would be challenged.
1282. The process reflected the fact that holding a conference call within a reasonable period of time was more practicable than holding a meeting. Hymans Robertson indicated that a seven working day process worked elsewhere, and was reasonable.
1283. The Pensions Panel discussed the lag between making a decision to de-risk and this being implemented. It was noted that the preference was to keep the process relatively straight forward via a switch from equities to corporate bonds. UBS's portfolio includes a Government Bond and Corporate Bond fund. Therefore if the Pension Fund made a switch, it would allocate towards the Corporate Bond fund only. The Baillie Gifford portfolio has a broad market bond fund which by virtue of its benchmark is weighted in favour of gilts (70% gilts v 30% corporate bonds). Therefore this would not be suitable for any additional allocation. However Baillie Gifford do run a number of Corporate Bond funds which fit the bill of being stabilising assets for the Fund, with some return.

1284. To the extent that the Fund Managers did not move then they would be out of line with their new benchmark. Whilst the fund managers would need to be conscious of the potential disruption to other clients, the liquidity of the stocks, the receipt of new funds from other investors and as a result of the want to be aligned with the mandate, the fund managers would be able to transition from equities to bonds fairly quickly.
1285. The process if a catastrophic event occurred during the transition was discussed. The Adviser suggested that it was important to define what is meant by "catastrophic" and suggested that experience was that a catastrophe should be considered as significantly worse than a 1/200 years event.
1286. If the funding level declined significantly then it was agreed that a discussion should be had but this would wait until the next Pensions Panel – the proposal does not include an automatic trigger to re-risk. Panel would be notified immediately of any de-risking action.
1287. It was noted that a 10% reduction in growth assets was fairly significant. Hymans Robertson advised that this reflected the large bands proposed for the funding level triggers (95%, 105%).
1288. The Pensions Panel were advised that determination of the investment strategy is part of its Terms of Reference and therefore a decision would not need to go to Governance Committee.
1289. The Fund Actuary reminded the Pensions Panel that we were now less than 12 months away from the 2016 Actuarial Valuation. It needs to be acknowledged that the continuation of a single investment strategy may be challenged. The Statement of Investment Principles is sent to all employers for their feedback and at a time when there is a lot of variation between employers it may make sense to reflect these through alternative investment strategies. The Pensions Panel were of the view that it was still appropriate to have a single investment strategy and that funding levels could be managed through contribution rates. However, consultation with employers around the de-risking was important. This would occur as part of the valuation work next year but officers were asked to consider how the Fund may want to inform employers now of the potential change.
1290. It was agreed to provide further work on the exact asset allocation point.
1291. The process was agreed subject to the following changes:
- Notification of investment managers and advisers at the point that it is identified that the funding level is above the trigger.

- Amendment to reference to “officer” and instead include Rachel Wood.
- Clarification that Advisers involved in any conference call / meeting are the Fund Adviser and the Fund Actuary.

1292. It was noted that this was not a decision to implement any de-risking policy yet.

Review of Governance Policy and Compliance Statement

1293. The Deputy Director of Finance introduced the paper drawing attention to the inclusion of the Pensions Advisory Board within the Statement and the update to reflect that all members have voting rights.

1294. The Chairman advised the Pensions Panel that he had met the Independent Chairman of the Local Pension Board, Peter Scales. He was very knowledgeable. The Chairman extended the invitation to the Pensions Panel meetings as an observer from time to time and to training sessions reflecting onerous training requirements for the Local Pension Board.

1295. It was noted that two employer representatives had been appointed, and work was in hand to advertise the opportunity to Scheme Members.

1296. The Policy Statement was agreed.

Update on Discretions Policy

1297. The update formalised an approach to include the ability to pay interest on late contributions and to tidy up some wording about transfers and death benefits.

1298. The policy was agreed.

Report on Urgent Action

1299. The Pensions Pane noted the action taken by the Director of Law, Assurance and Strategy, in consultation with the Chairman, in approving a manager for the Balanced Growth Mandate following a competitive dialogue procurement exercise.

Signed:

Date: