

Part I Minutes of the Pension Fund held on 25 April 2012

Present: Mr Michael Brown (Chairman), Mr Robert Dunn, Mr Mick Hodgson, Mr Clem Stevens, Mr Andrew Smith, Dr. James Walsh, Mr Gordon Marples, Mr Alan Price, Mrs. Chris Earwaker

Apologies: Mr Steve Waight

In Attendance: Caroline Burton, Richard Hornby, Steve Harrison, Rachel Wood, Vickie Hampshire

Introduction

923. The Chairman welcomed Dr. Walsh to the Pensions Panel and welcome Vickie Hampshire to the meeting. Vickie has replaced Laura Davies as the Principal Accountant for the Pension Fund during her maternity leave.

Declarations of Interest

924. Members and officers are 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.

925. It is recorded in the register of interest that Mr Stevens' nephew, Peter Hadden, is a partner in Baillie Gifford, Mr Hodgson is a Governor for Collyers Sixth Form College, Mr Browns' son is employed by Deloitte, Mr Smith is a deferred pensioner of Mercer and Mr Hornby is a co-opted Governor for the University of Chichester

926. Mr. Hodgson reminded the meeting that his son works for Henderson's Investments. This should be added to the standing register.

Approval of Part I Minutes of the Pensions Panel held on 23 January 2012 and matters arising

927. The minutes were agreed.

928. The Chairman clarified that Mr. Lanzer attended the meeting as an observer because of his role on the working group reviewing governance arrangements for the Fund.

Proposed Changes to Public Sector Pensions

929. The Executive Director introduced his report which provided a brief update but talks between Employers, Unions and the Government are ongoing. It was expected that further details of the "big ticket" items (contributions, accrual rate, revaluation rate, protections, employer cap, cost management mechanism – outline) would be available in advance of the meeting but very little information has been disclosed.
930. It was suggested that a deal is edging nearer and Unison members were expecting to participate in a ballot in May on the proposed scheme design.
931. The Executive Director drew the Panel's attention to the recent appeal by Trade Unions against a change in the way public sector pensions are protected against inflation. The High Court ruled in December that the government's switch in calculations to CPI rather than RPI was lawful. Subsequently, they have lost the latest stage of their challenge at the Court of Appeal. As a result one of the major planks of the 2010 Actuarial Valuation is still in place.
932. Responding to questions, it was confirmed that the Council had not received a response following its letter to the Department for Communities and Local Government (DCLG) regarding the Draft Local Government Pension Scheme (Miscellaneous) Regulations.

Working Group Update

933. The Chairman introduced the paper, the best part of which had been considered in some detail at the January meeting of the Pensions Panel. The working group had considered how the present investment arrangements were working and concluded that the current model was pretty good. There was no benefit in making changes for change sake – there needed to be demonstrated that any revised structure could provide a positive improvement to the Fund's risk / return profile and this had not been demonstrated.
934. The Chairman thanked all those who laboured hard on the working group discussions.
935. The Executive Director drew the Panel's attention to the recommendations set out at the front of the report.
936. Recommendations 1-5 had already been discussed by the Panel. The shape of the Fund was to be largely unchanged comprising two large actively managed mandates and alternative allocations to property and private equity. The Panel had considered and agreed the merits of a composite benchmark and found in favour of this approach as improving the Panel's ability to hold managers to account for their performance. Finally, multiple investment strategies for employers was rejected.

937. The Panel agreed that it was important to review managers against a meaningful benchmark (eg growth and value managers perform differently) but questioned whether there was a need to review the style bias. The Executive Director suggested that over time, the two styles should equal each other out, but it was important to keep the strategy under review. It was also important for the Panel to consider whether there are any unintended consequences / risks as a result of the benchmark chosen.
938. It was agreed that the strategy currently employed has worked well and the suggestion of the Fund being cash positive for a number of years was very encouraging. However the Panel questioned as to whether, as the Fund gets bigger, there is a need to change how the Fund is managed. Having two large balanced mandates could result in having too much of a dependency on a single manager.
939. The Fund Adviser suggested that the size of the mandates is small relative to other mandates held by the fund managers and that the current arrangement of intelligent, informed lay people is a very strong way to manage the Fund.
940. The later recommendations cover how the Panel should work.
- It was recommended that fund managers should present in more depth every six months (either at alternative meetings or by way of more meetings), providing a longer term focus to their presentations. Fund Managers could be called in at any point if the Panel have concerns and this should be viewed as a significant event by both parties. The proposed format should allow the Panel to probe deeper and sharper and to provide time to think harder about what the Managers are reporting. The Panel were of the view that this was a sensible proposition. It would make Panel meetings more meaningful and it was considered that there would be very few drawbacks.
 - The suggestion that the Panel could have a pre-agenda meeting was considered by the Panel to be repetitious.
 - The Working Group made recommendations regarding the Independent reporting. The Executive Director confirmed that the Panel would receive a far larger report from the fund managers twice a year and something from an independent source on a quarterly basis. The Panel requested that they as well as Officers were involved in determining what information was provided by the Fund Managers.
 - The Executive Director referred to the need for training. Three conferences had been recommended as useful and these events were valuable opportunities to update pensions knowledge. The conferences required c.3 days commitment but attendees should get a huge amount out of them.
 - The issue of how to appoint representative was discussed. There needed to be a clear, transparent recruitment process and the appointment needed to provide additional scrutiny. It was agreed that

this would need some further consideration. However the spirit of the recommendation, that Panel membership would be extended was agreed. The challenge of keeping consistency informed was also raised and it was recommended that Officers look into providing a single communication which can be shared.

- 941. The Panel agreed all the recommendations with the exception of recommendation 10.
- 942. It was agreed that the report should now go forward to the July meeting of Governance Committee.
- 943. The Chairman informed the meeting that Governance Committee has set up a further Working Group to consider property and private equity investments to inform the procurement exercises due on the existing mandates.

Business Plan

- 944. The Executive Director introduced his Business Plan which sets out objectives for the next year and invited questions and comments from the Panel.
- 945. The Business Plan was agreed. This includes the Panel undertaking training during the year on Financial Services Procurement & Relationship Management and Investment Performance and Risk Management.
- 946. The Pensions Panel will receive a report setting out progress against the Business Plan and key risk monitor at each of their quarterly meetings.

Part II Matters

- 947. The Chairman asked members to indicate at this stage if they wished the meeting to consider bringing forward into Part 1 the items on Part II of the agenda.
- 948. Resolved – That under Section 100(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act (paragraph 3: financial or business affairs of any particular person (including the authority holding the information)) and that, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.