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

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

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

Declarations of Interest

949. 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.

950. 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 Delloitte, Mr Smith is a deferred pensioner of Mercer and Mr Hornby is a co-opted Governor for the University of Chichester

951. Dr. Walsh advised that he served on other bodies who are employers within the Scheme.

Approval of Part I Minutes of the Pensions Panel held on 25 April 2012 and matters arising

952. The minutes were agreed.

Annual Report, Performance Report and Trade Cost Analysis

953. A revised performance report (Agenda Item 5) had been circulated.

954. The Chairman advised the group that the agenda items relating to the Fund's Annual Report, Performance Report and Trade Cost Analysis would be combined.

955. The Executive Director introduced his report and referred the Panel to the five point summary at the front of the report.

956. Since March 2011, the number of contributors has decreased by 4% whilst the number of pensioners and deferred pensioners has risen by 6.8% and 7.2% respectively. Over the last 20 years total membership has increased by over 170%. The split between contributors and pensioners (deferred and active) has shifted from 51:49 in favour of contributors in 2002 to 38:62 in 2012.

957. The Fund's performance within the two balanced mandates has been good. Whilst stock selection helped performance, both managers were underweight relative to the benchmark in bonds, and this had a negative impact. It will be important for the Panel to keep a close eye on how asset allocation and stock selection impacts performance over the coming year and will be an important discussion point with Fund Managers.

958. The Fund's performance consultant has advised that the average investment cycle is probably 7-10 years. Over 10 years the Fund has outperformed its benchmark by 0.6% per annum putting it in the 7th percentile when compared to other local authority funds. Over the last 20 years it has outperformed its benchmark by 0.5% putting it in the 5th percentile.

959. The Pensions Panel wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles, which in turn will feed through into good performance. During the year, the Fund manager on behalf of the Fund had votes placed at 99% of domestic meetings at which they were entitled to vote and 93% of foreign meetings. Where votes were not cast this was due to late instruction and paperwork being required.

960. In respect of the Performance Report the Executive Director drew the Panel's attention to the change of benchmark on the Baillie Gifford mandate during the year and that it will be important to consider their new target (2% over five years) going forward, being aware that there will be a transition period.

961. The property manager has been active during the year and this has resulted in a number of large acquisitions. This as well as concern over vacancy rates has impacted relative performance.

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962. The Panel enquired about the sequence of events leading to a change to the benchmark adopted for Baillie Gifford's mandate. The Executive Director informed the Panel that this had been under discussion and debate for a period of 12 months before the change was agreed. The longer term target reflects the volatility within the Global Alpha portfolio. At the same time the Fund opted to change its fee structure to align the Fund Manager and the Fund's interests more closely by introducing a performance fee element.

963. The Panel asked about the diversity of membership within the Fund and it was agreed that further work would be done on this. Although the LGPS has a vesting period, this is currently set at three years. Although there are transfer arrangements for staff when they change employment, members of the Scheme cannot transfer out in cash their benefits as may be the case in private sector arrangements.

POST MEETING NOTE: The analysis of membership will be discussed with Capita once the Fund moves to their new pension administration software.

964. The Panel were pleased to see that the performance provided was very credible. However it was noted that the comparison to the Local Authority Average whilst being a useful indicator had a certain element of variance in it due to the strategies adopted by the different Funds participating.

965. The Panel queried the increase in Administering Authority expenses during the year. The Executive Director advised the Panel that the method of recharge had not been reviewed for a number of years. The cost included in the 2011/12 statements more accurately reflects the cost of supporting the Fund. The increasing governance and regulatory complexity, including the need for a separate bank account and treasury management strategy, has forced the Fund to become more expensive. Of the amount included £562k relates to pensions and payroll. It is anticipated that there will be a reduction to this figure following the Support Services Outsourcing (SSO).

966. The Panel commented that the direct transaction costs on property appeared high. The Executive Director advised that there had been a number of large acquisition costs during the year which had been shown in the Income and Expenditure statements. Over the longer term transaction costs should even out but there has been a greater drag over the 12 month period.

967. The Fund Adviser commented that the IPD benchmark is becoming increasingly polarised as a comparator as it is dominated by large Funds with holdings in Central London, which a portfolio the size of WSCC cannot invest in. The Fund needs to consider how well it is doing compared to others who have a similar portfolio.

968. It was queried why the report does not go to full Council. The Executive Director advised that it was as a result of the Pensions Panel being a sub-committee of Governance, to whom the Council has delegated pensions matters to.

969. The Panel complimented the author of the Annual Report and Accounts for producing a very readable paper.

970. The Trade Cost Analysis report was good husbandry. The costs of decisions to buy and sell has been minimised by the prudent instruction of the Fund Managers. The saving during the year is comparable to the total Administering Authority expenses discussed by the Panel previously. The report is important for

diligence and speaks volumes about the attitude that the Managers have adopted about managing the Fund's cash.

971. The Fund Adviser suggested that similar information would be important for the procurement exercise.

972. The Panel enquired about what actions are being done to communicate the relatively good performance of the Scheme to Scheme members, potential members, employers and tax payers. This would be taken forward by Officers.

Proposed Changes to the Local Government Pension Scheme

Bryan Chalmers and Steven Law joined the meeting.

973. The Chairman invited Bryan Chalmers to open discussions. The changes proposed are not as expected and it is important to note that these are still proposals, as there has not been a formal agreement as such. With this in mind March 2013 is a very challenging deadline to have the Regulations in place

974. There is likely to be some reduction in the future cost of pensions but this will effect employers differently dependent on membership profile. Everything that has been promised to members to date will still need to be covered. Any future changes will only impact on future accruals and will reflect the additional protections which have been set out. Furthermore since the last valuation deficits are likely to have grown.

975. There are still a number of unknowns within the proposals such as the take up of the 50:50 options and the extent of the benefits behind this, and the cost sharing mechanisms.

976. Contribution rates have changed to be based on actual rather than full time equivalent pay and this will impact on employer contribution rates e.g. those with a high proportion of part time workers will receive less into the Fund via employee contributions, which will need to be offset by higher employer contributions.

977. The 50:50 option was introduced with the intention to reduce opt-outs which could have impacted the maturity profile of the Scheme. It was also suggested that higher earners may be more likely to go to the 50:50 option as it is more tax efficient, rather than remaining in the full Scheme, or opting out.

978. The Panel commented that it does not necessarily follow that Members will be worse off under CARE due to the inflation link and the high accrual rate which builds in a lot of guarantees.

979. It was noted that under the old scheme all members paid 6%. The tiered contribution rates were introduced to be more equitable

whilst the final salary scheme was in place. However it was suggested that under CARE the Scheme is more equal and therefore it could imply a single contribution rate was acceptable. The Fund's Actuary suggested that it depends on the definition of fairness – it could be that if you earn more then you could afford to pay a higher contribution to the Scheme. The government is very keen to keep the average employee contributions the same in contrast to other public sector schemes who have seen a 3% increase, and to remain attractive to lower earners.

Update on Business Plan & Risk Register

980. The Executive Director introduced the Business Plan which included an update on how we are performing against the objectives set out in April.

981. Attention is drawn to the proposed timetable for the balanced mandate procurement which has been supplied. The Executive Director noted that he would rather the timetable slip than the Panel not be comfortable with the process.

982. The Panel asked why no progress had been made on development of the Fund's website in light of its importance as a communication tool. This would be taken forward by Officers.

Part II Matters

983. 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.

984. 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.