

AGENDA

Meeting: Investment Sub-Committee
Place: West Wiltshire Room - County Hall, Trowbridge BA14 8JN
Date: Thursday 15 September 2016
Time: 10.30 am

Please direct any enquiries on this Agenda to Libby Beale, of Democratic Services, County Hall, Bythesea Road, Trowbridge, direct line 01225 718214 or email elizabeth.beale@wiltshire.gov.uk

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Chairman's Briefing:	Date	Time	Place
	Thursday 15 September	10am	West Wilts room

Membership:

Cllr Charles Howard	Cllr Gordon King
Cllr Tony Deane	Cllr Steve Weisinger

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PART 1

Items to be considered when the meeting is open to the public

1 **Election of a Chairman**

To elect a Chairman for the forthcoming year 2016-17.

2 **Membership**

To note any changes to the membership of the Sub-Committee.

3 **Attendance of non-members of the Committee**

To note the attendance of any non-members of the Committee.

4 **Apologies**

To receive any apologies for absence or substitutions for the meeting.

5 **Minutes** *(Pages 7 - 10)*

To confirm the Part 1 (public) minutes of the previous meeting held on 16 June 2016.

6 **Declarations of Interest**

To receive any declarations of disclosable interests or dispensations granted by the Standards Committee.

7 **Chairman's Announcements**

To receive any announcements through the Chairman.

8 **Public Participation and Councillors Questions**

The Council welcomes contributions from members of the public.

Statements

If you would like to make a statement at this meeting on any item on this agenda, please register to do so at least 10 minutes prior to the meeting. Up to 3 speakers are permitted to speak for up to 3 minutes each on any agenda item. Please contact the officer named above for any further clarification.

Questions

To receive any questions from members of the public or members of the Council received in accordance with the constitution. Those wishing to ask questions are required to give notice of any such questions in writing to the officer named above (acting on behalf of the Corporate Director), no later than 5pm on 8 September in order to be guaranteed written response. Questions received

between this deadline and two clear working days before the meeting will receive a verbal response. Please contact the officer named on the first page of this agenda for further advice. Questions may be asked without notice if the Chairman decides that the matter is urgent.

Details of any questions received will be circulated to Committee members prior to the meeting and made available at the meeting and on the Council's website.

9 **Investment Sub-Committee Effectiveness** (Pages 11 - 20) **10:35am**

Members are requested to consider a report from Mercers reviewing the decisions made by the Investment Sub-Committee as part of an ongoing review on the effectiveness of the Committee.

10 **Date of next meeting**

The next ordinary meeting of the Sub-Committee will be held on 24 November 2016.

11 **Urgent items**

Any other items of business which, in the opinion of the Chairman, should be considered as a matter of urgency. Urgent items of a confidential nature may be considered under Part II of this agenda.

12 **Exclusion of the public**

To consider passing the following resolution:

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Item Numbers 13-17 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraphs 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

PART 2

Items during consideration of which it is recommended that the public should be excluded because of the likelihood that exempt information would be disclosed.

13 **Minutes** (Pages 21 - 28)

To confirm the Part 2 (confidential) minutes of the meeting held on 16 June 2016.

- 14 **Update on the Government's proposals on pooling of investments** **10:50am**
- A verbal update will be provided by the Head of Pensions on the latest developments with the Government's proposal to consult on the pooling of investments.
- 15 **Investment Quarterly Progress Report** *(Pages 29 - 82)* **11:00am**
- Three confidential reports, including one from Mercer are circulated updating the Committee on the performance of the Fund's investments as to the end of March 2016.
- The Committee is asked to note the attached investment reports and the update provided by officers and advisers at the meeting.
- 16 **Risk Management** *(Pages 83 - 96)* **11:30am**
- Officers and Mercer present a confidential report that considers the main risks that the Committee is exposed to and proposes mitigation options for member consideration.
- 17 **Berenberg Dynamic Currency Overlay- Formal Review of Mandate** *(Pages 97 - 122)* **11:50am**
- A confidential report from officers introduces the formal review of this mandate. Berenberg will also present their annual report and outline the performance of the Fund since inception for members' consideration.

Close

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INVESTMENT SUB-COMMITTEE

MINUTES OF THE INVESTMENT SUB-COMMITTEE MEETING HELD ON 16 JUNE 2016 AT THE NORTH WILTSHIRE ROOM - COUNTY HALL, TROWBRIDGE BA14 8JN.

Present:

Cllr Charles Howard, Cllr Mark Packard and Cllr Roy While (Substitute)

Also Present:

Jim Edney (Independent Advisor) and Joanne Holden (Mercer)

17 **Membership**

There were no changes to the membership of the Sub-Committee.

18 **Attendance of non-members of the Committee**

There were no non-members of the Committee present.

19 **Apologies**

Apologies for absence were received from Mike Pankiewicz, Cllr Steve Weisinger and Cllr Tony Deane who was substituted by Cllr Roy While.

20 **Minutes**

Resolved:

To confirm the Part 1 (public) minutes of the meeting held on 25 February 2016.

21 **Declarations of Interest**

There were no declarations of interest.

22 **Chairman's Announcements**

The Chairman advised that a meeting with Berenberg Bank had been held to agree an approach to hedging in the days preceding and following the UK referendum on membership of the European Union.

23 **Public Participation and Councillors Questions**

There was no public participation.

24 **Date of next meeting**

The next meeting was to be held on 15 September 2016.

25 **Urgent items**

There were no urgent items.

26 **Exclusion of the public**

Resolved:

That in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Minute Numbers 27-34 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraphs 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

27 **Minutes**

Resolved:

To confirm the Part 2 (confidential) minutes of the meeting held on 25 February 2016.

28 **Update on the Government's Proposals on Pooling of Investments**

Members were thanked for their attendance at a recent training event on the Government's proposals for the pooling of Pension Funds, a further update on pooling was provided by the Head of Pensions.

Resolved:

To note the update on the Government's proposals for the pooling of pension funds.

29 **Partners Infrastructure Investment**

The Sub-Committee considered a confidential report on investment in Partners Group.

Resolved:

To approve the investment of £45m in the Partners Group Direct Infrastructure 2015 LP as part of the 5% strategic asset allocation to infrastructure, subject to passing a due diligence process.

30 Investment Quarterly Progress Report

Members were provided with a high-level overview of the performance of the Funds investments as to the end of March 2016.

Resolved:

To note the Investment Quarterly Progress Report and update provided by officers at the meeting.

31 Barings- Review of 2015-16 and Plans for the Future

Representatives from Barings updated the Sub-Committee on their performance over the last financial year and their plans for the future.

Resolved:

To note the update and Annual Report from Barings.

32 Loomis Sayles- Review of 2016-16 and Plans for the Future

Representatives from Loomis Sayles updated the Sub-Committee on their performance over the last financial year and their plans for the future.

Resolved:

To note the update and Annual Report from Loomis Sayles.

33 Investec - Review of 2015-16 and Plans for the Future

Representatives from Investec updated the Sub-Committee on their performance over the last financial year and their plans for the future.

Resolved:

To note the update and Annual Report from Investec.

34 Baillie Gifford- Review of 2015-16 and Plans for the Future

Representatives from Baillie Gifford updated the Sub-Committee on their performance over the last financial year and their plans for the future.

Resolved:

To note the update and Annual Report from Baillie Gifford.

(Duration of meeting: 10.35 am - 3.05 pm)

The Officer who has produced these minutes is Libby Beale, of Democratic & Members' Services, direct line 01225 718214, e-mail elizabeth.beale@wiltshire.gov.uk

Press enquiries to Communications, direct line (01225) 713114/713115

REVIEWING THE EFFECTIVENESS OF THE INVESTMENT SUB COMMITTEE

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September 2016

Agenda Item 9

INTRODUCTION

The purpose of this report is to consider the effectiveness of the Investment Sub Committee of the Wiltshire Pension Fund over the last 12 months.

This type of reporting (and discussion) is typically considered good governance practice for pension fund committees and should be evolved over time as the ISC becomes more established. Moreover, the management of the Fund is a long term commitment, and ideally, the ISC will consider the impact of the decisions it makes over a longer time frame than just a year. With this in mind, we have included in the Appendix some sample charts that the ISC may want to consider including in future versions of this report, as the ISC's history builds and more importantly, and funding and investment objectives are confirmed as part of the actuarial valuation process during 2016. So, for example, in future we would suggest that we look at the longer term impact of decision making on the funding level.

Assessment of effectiveness is not an exact science, and we have posed this initial report as a discussion document, rather than a fait accompli.





We have considered the effectiveness of the ISC along two lines:

- The quantitative impact of decisions taken
- A qualitative assessment of the effectiveness of the ISC in a more holistic sense

Decisions taken by the ISC over the last 12 months are as follows:

Retention of Baring Asset Management to manage the multi asset mandate
Decision to implement a flight path / trigger strategy to reduce risk as the funding level improves
Decision to change the strategic allocation within the Loomis Sayles mandate

ASSESSMENT OF VALUE ADDED FROM ISC DECISIONS

Strategic Decision	Period	Positive absolute return over full period?	Performance relative to peers?	Outperformed relative to previous asset?	Comment
To retain Barings for the multi asset mandate (but to set triggers for review in relation to assets under management)	June 2015 – ongoing			n/a	Barings returned -0.9% over the 12 months and were in the 3 rd quartile of peers. Performance continues to be monitored and communication maintained with Brunel peers who also invest in this strategy
To implement a flight path / trigger strategy to reduce risk as the funding level improves	Ongoing	n/a	n/a	n/a	Market conditions have meant trigger have not yet been hit. Quantitative assessment will be made once implemented post 2016 actuarial valuation
Decision to change the strategic allocation within the Loomis Sayles mandate to 60% absolute return / 40% multi asset credit from 50/50.	February 2016		n/a		Only one full quarter to monitor, but absolute return outperformed multi asset credit by 3.8% so the decision to bias the mandate towards absolute return has paid off over this very short period

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ASSESSMENT OF ISC ACTIVITY

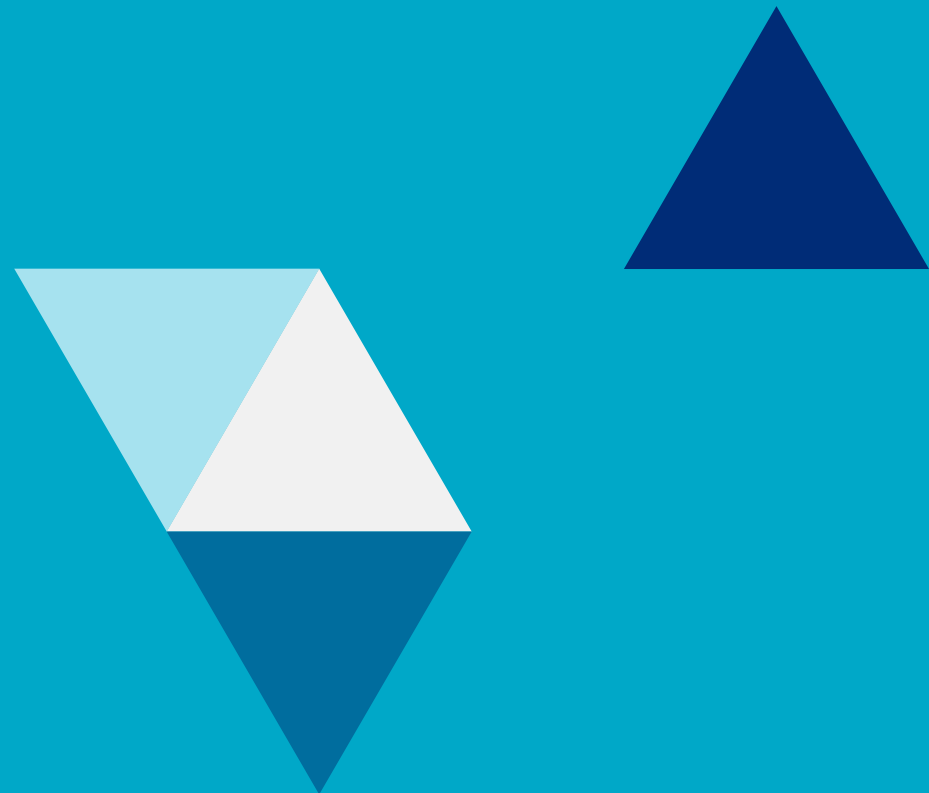
Activity	Assessment	Comment
Removal of investment business from main Pensions Committee agendas	●	The ISC has freed up considerable agenda time for the Pensions Committee and over the last twelve months has dealt with manager monitoring and initial strategy discussions with an eye to the actuarial valuation. Is the Pensions Committee kept up to date with ISC business and is there a challenge mechanism?
Manager monitoring	● ●	Manager meetings are arguably more focused (one meeting for traditional assets, one for alternatives) and in-depth given that more time can be dedicated in ISC meetings . Should the ISC consider setting the agenda for each meeting to allow for more focused discussion depending on (for example) the market environment or the ISC's workplan?
Training	●	The ISC (and full Committee) are committed to training and the annual event allows for a strategic overview to be taken. Should the ISC consider hot topic training throughout valuation and strategy review period?
Engagement with LGPS pooling agenda	●	The ISC has received regular briefings from Officers and the Pensions Committee Chair on Brunel activity and has received training on asset pooling, regulatory structures and work plans. Is the ISC up to speed on the pooling timetable and Officer time commitments?
Increased speed of decision making	● ●	Arguably no time critical decisions have needed to be made, but the ISC is cognisant of the issue, and appears comfortable with the idea of making decisions in principle and setting triggers for implementation (e.g. as per the Barings mandate).

FUTURE ASSESSMENT OF ISC EFFECTIVENESS

		Good outcome looks like:
Financial Outcomes	Funding status	Changes in funding level driven by clear strategy designed around funding objectives.
	Risk	Improvement in prospective return per unit of risk.
	Performance	Recommended managers achieve their targets.
Delivery	Organisation	Clear and focused agendas, time to read meeting materials in advance and enough time at meetings to discuss key issues.
	Understanding	Clear idea of issues at hand and a sense of being on track.
	Decisions	IC clear on any decision to be made (what, why and when).
	Oversight	Monitoring is two fold; funding level progression and managers. Agenda is driven by the ISC
Implementation	Execution	Swift execution of decisions and actions
	Monitoring	Identifying, escalating and resolving issues quickly.
Relationship	Team	Clear roles and link to Pensions Committee. Environment where challenge is welcomed.
	Cost control	Good budgetary discipline; no surprises; savings made.

APPENDIX

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MONETARY IMPACT SUMMARY – EXAMPLE – NOT FUND SPECIFIC

Approximate Funding Impact of Decisions

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Source: Mercer, investment managers. Net of investment management fees and transaction costs incurred, with the exception of decision 9 where potential transaction costs are not considered.

The decision to not more closely hedge the liability risks over the 5 years to 30 June 2015 has been costly to the Scheme, with the opportunity cost dwarfing the gains and losses attributable to the other decisions shown.

Of the manager selection decisions, the appointment of Majedie has been most successful in monetary terms, adding c.£1.9m since inception, whereas the decision to appoint THS has been the least successful, costing the Scheme c.£0.7m since inception.

The decision to rebalance the Scheme's assets in September 2011 has generated a gain of c.£0.6m, while the rebalancing exercise implemented in March 2014 has had a marginally negative impact to 30 June 2015 in monetary terms.

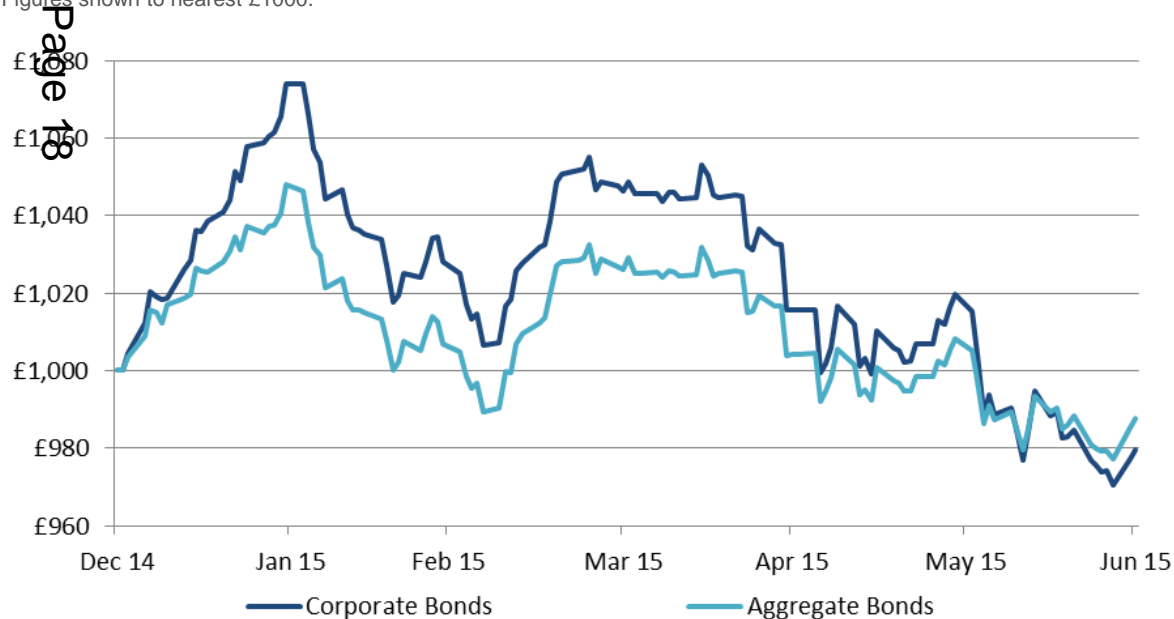
IMPLEMENTATION DECISIONS - EXAMPLE

PASSIVE MANAGEMENT OF UK CORPORATE BONDS VS ACTIVE AGGREGATE BONDS

Mandate	Asset Value (31 December 2014) (£m)	Net Performance to 30 June 2015 (% p.a.)	Implied Funding Impact * (£)
Passive Corporate Bonds	5.1	-2.7	-139,000
Active Aggregate Bonds	-	-1.3	-64,000
Opportunity Gain	5.1	+1.4	-£75,000
<i>BoAML Sterling Broad Market Index</i>	-	-1.2	-63,000

Assumes monies were transferred from XYZ passive corporate bond fund to ABC Aggregate Bond Fund on 31 December 2014. Does not take into account any transaction costs which may have been incurred

* Figures shown to nearest £1000.



Source: Thomson Reuters Datastream. "Corporate Bonds" represented by the iBoxx Sterling Non-Gilts Over 10 Years Index and "Aggregate Bonds" represented by the BoAML Sterling Broad Market Index, the benchmark for the Scheme's aggregate bond mandate.

Estimated funding impact (net)	
Since Inception	12 months
-£75,000	n/a

Summary of Decision

In March 2014 the Investment Committee ("IC") discussed the merits of transferring the Scheme's investment in XYZ long dated passive corporate bond fund to an alternative mandate, noting Mercer's preference for credit to be managed on an active rather than a passive basis. The Investment Committee indicated a preference to transfer the monies to the existing ABC aggregate bond mandate (which invests in both corporate bonds and gilts). The decision was deferred to the December 2014 IC meeting, where it was agreed that there was a need to transfer out monies but a decision was not reached on where the proceeds should be directed.

Monetary Gain/Loss

The decision to retain monies in the XYZ passive corporate bonds mandate rather than transfer monies to ABC's aggregate bonds mandate cost the Scheme c.£75,000 over the six month period to 30 June 2015.

The majority of this is attributable to the lack of gilts exposure (with gilts outperforming credit) while the active ABC mandate marginally underperformed the index.

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