

WILTSHIRE PENSION FUND COMMITTEE

**DRAFT MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING
HELD ON 22 JULY 2011 AT COUNCIL CHAMBER - COUNCIL OFFICES,
BROWFORT, DEVIZES.**

Present:

Mrs Lynda Croft, Cllr Tony Deane (Chairman), Mr Jim Edney, Mr Tony Gravier,
Cllr Charles Howard (Vice Chairman), Mr Tim Jackson, Cllr David Jenkins (Substitute),
Cllr Des Moffatt, Cllr Jeff Osborn, Mr Mike Pankiewicz, Cllr Sheila Parker, Mr Paul Potter and
Cllr Peter Stoddart

36. **Membership**

There were no changes to the membership of the Committee

37. **Attendance of non-members of the Committee**

Jim Edney, Independent Pension Advisor – CIPFA
Paul Potter, Hymans Robertson

Simon Gregory, Western Asset Management
Catherine Matthews, Western Asset Management

Christopher Fawcett, Fauchier Partners
Clark Fenton, Fauchier Partners

38. **Apologies for Absence**

Apologies for absence were received from Cllr John Brady and Cllr Fleur de
Rhe-Phillipe

39. **Minutes**

The minutes of the meeting held on 12 May 2011 were presented.

Resolved:

To approve as a correct record and sign the minutes.

40. **Chairman's Announcements**

The Chairman updated the committee on the following items:

Ministerial Update on Changes to Public Pensions

A statement by the Treasury issued on 19th July reiterated the Government's commitment to affordable, sustainable and fair pension provision but said discussions will remain on-going with the Unions on the key recommendations of the Hutton report. Scheme level discussions will now be undertaken before the initial proposals are delivered in the autumn.

It had stated that scheme-specific cost ceilings would be introduced to limit the taxpayers (i.e. employers' contributions). It is believed the Government Actuaries Department are currently working on this, and details will be released in October.

The statement also confirmed that the Government recognises the LGPS is different from other public-sector pensions because of its funded nature and will discuss ways to deliver some or all of the savings required by Treasury other than from employee contribution increases.

Tobacco holdings and policy on ethical investments

The Chairman updated the committee on recent increased interest in Pension Fund investments in Tobacco companies.

The approach adopted by the Wiltshire Pension Fund is that Funds have a fiduciary duty to ensure best returns are achieved in order to minimise pension costs to its 64 employers.

It's believed the screening of shares doesn't allow the best returns to be achieved and instead expects its investment managers to take account of social, environmental and ethical considerations in making its investments.

The Interim Chief Financial officer confirmed that the approach undertaken by the Wiltshire Pension Fund was in line with other funds in the region. The Fund also undertakes a policy of engagement through its membership of the Local Authority Pension Fund Forum.

LGC Investment Summit

Members of the Committee were invited to the LGC Investment Summit being held on 8-9th September at Celtic Manor in Newport. Officers had attended in the past and it provides a good insight into the key investment issues facing LGPS schemes.

41. **Declarations of Interest**

None.

42. **Public Participation and Councillors' Questions**

None.

43. **Internal Audit report**

The Interim Chief Financial officer summarised the results of the Internal Audit report for the 2010/11 Audit.

The findings were encouraging, he explained: any issues raised were of operational risks rather than strategic choices. This was the first internal audit for a few years and as such had to revisit several areas where there was a backlog of processes to be audited. The next internal audit report could build upon this base and consult more with Swindon Borough Council and other employers.

Members of the committee commended the report and welcomed the substantial assurance that it contained.

It was re-emphasised by some that issue with the SAP accounting programmes should be solved with seamless solutions if at all possible, rather than workarounds. Officers explained that integration with Altair was continuing to be developed and they believed they now had a much more reliable system in place.

Resolved:

a) **To note the report.**

b) **To monitor progress against the action plan contained within the Audit report and revisit this at a future meeting.**

44. **Pension Fund Risk Register**

The Head of the Pension Fund, David Anthony, summarised his report, and outlined the key changes in the risk register since the last meeting of the committee, as follows:

PEN001: Failure to process pension payments and lump sums on time

– This has decreased from amber to green as a result of the roll out of new laptops to the pension administration team. The use of laptops now means that should further issues arise with the network then they would be able to access ALTAIR remotely to ensure continuity in service.

PEN004: Inability to keep service going due to loss of main office, computer system or staff

– This has decreased from amber to green. This reflects the roll out of the laptops mentioned above which now enables the whole team to work remotely from County Hall in the short term if necessary along with the delivery of the fire safes which means the microfiche (non digitalised records) are protected in the event of a fire.

Committee members raised the fact that the target risks for PEN006a – PEN007b, which are economic and relate to significant rises in employer contribution rates, all currently stand at a lower level of risk (Low) than their target level (Medium). The Head of Pension stated that he would consider lowering the target now that the employers' contribution stabilisation policy had been implemented. Mr Paul Potter warned the committee that whilst the short-term risks in this area remained low, over the longer-term the risk could be substantially higher due to changes in the profile of the fund and proposed changes due to the Hutton report.

Cllr Osborn was re-assured that action was being undertaken to address PEN008 – to ensure monitoring of the Altair and that the Pensions Fund Team were implementing tools to ensure consistency in process and methods.

Resolved:

To note the Pension Fund Risk Register

45. **Wiltshire Pension Fund 2010-11 Outturn Statement**

The Fund Investment & Accounting Manager, Catherine Dix spoke to the Pension Fund Administration Budget 2010-11 – Outturn statement.

She explained the following underspend and overspends:

Fund Investments

Investment Management Fees - Segregated Funds (£658,000) - Underspend due to Funds being removed from Baillie Gifford UK Mandate & no performance fee for Capital AIG payable.

Investment Management Fees - Pooled Funds (£351,000) - Underspend due mainly to funds being removed from Record Currency Management

Investment Custodial & Related Services (£18,000) – Overspend due to lower income from Securities Lending as a result of more challenging environment

Investment Consultancy (£50,000) - Underspend mainly due to reduced legal fees on tax claims for FIDS, FOKUS and Withholding Tax in the year.

Scheme Administration

Pension Scheme Administration (£19,000) - Underspend as a result of higher income on bank interest (£20K); reduced Finance dept recharges (55K) offset mainly by implementation costs of new pension database system in August 2010.

Actuarial Services (-£53,000) - Overspend relates to additional advice from Hymans arising from pension manager support, additional valuation work including the provision of early warning reports for employers.

Audit – (£46,000) – Underspend from reduced External Audit fee for the year

Total underspend was £1,076,000

Officers confirmed that the year-end underspend was re-invested into the Funds investments, and updated that the current external audit is expected to lead to an unqualified audit opinion.

Committee Members queried the overspend relating to Actuarial Services – it was explained that this could be accounted for partly as a result of an element of bought in pension support, and a high number of employers and regulation issues; for example work on the effect of schools changing to Academy status, new employers and bulk transfers arising from outsourcing of services, cessation of employers, changes to the tax regimes and other regulation changes.

The Head of Pensions reminded members that actuarial costs were being monitored and that the proposed South-West Actuarial Framework would be expected to provide savings in future.

Resolved:

That the committee note the report.

46. **Statement of Investment Principles (SIP)**

Fund Investment & Accounting Manager, Catherine Dix summarised changes and additions to the annually updated Statement of Investment Principles (SIP) for the Wiltshire Pension Fund.

It was explained that the Fund is currently undertaking a Strategic Review of its asset allocation and where applicable the SIP has been updated to reflect the changes agreed to date. The SIP gives a comprehensive description of the thinking behind the way in which the investments of the Fund are managed.

The main change since the publication of the previous SIP is the on-going current strategic review of asset allocations which started in April 2011. The SIP reflects the changes agreed to date. The SIP also discusses the voluntary requirement of the Fund to produce a compliance statement with the Stewardship Code which was introduced in 2010.

The SIP has been updated to reflect the Fund's developments with its compliance to the 6 Myners principles since last year. The Fund is now fully compliant with the six principles although an area that still requires development

is within principle 4 - Performance Assessment where the implementation of a formal assessment of its advisers is still required, to ensure the cost, quality and consistency of the advice is monitored.

A request was made to include the latest solvency position of the Fund based on the estimates provided by the Actuary on page 6 of the SIP.

Resolved:

To approve the 2011 Statement of Investment Principles with the additional words in relation to the latest estimated solvency position on page 6 as discussed.

47. **Wiltshire Pension Fund Business Plan 2011-14**

Head of Pensions, David Anthony outlined the draft Wiltshire Pension Fund Business Plan 2011-14 and asked members for any suggested amendments / comments.

It was explained that the Wiltshire Pension Fund Business Plan 2011-14 will need to be reviewed by its officers' annually and amended to account for upcoming changes surrounding the LGPS, following the implementation of the Hutton Report.

A discussion ensued, focused on the possible impact of the forthcoming Hutton report. David Anthony outlined a few key points as follows:

- The government were now treating the LGPS separately to the other public sector schemes.
- There was speculation that pension benefits may be reduced instead of increases in the pension contribution level.
- A widespread concern in the sector was that any increase in the contribution rate would trigger opt-outs – this could potentially lead to rapidly maturing cash flow profiles for the funds.
- The impact of outsourcing currently being undertaken in many councils would be monitored and forecasting models could be provided to employers upon request.
- A key risk is smaller employers ceasing who are then unable to meet their cessation valuation payment – this should be addressed through good communication.

The following points were clarified following questions from members of the committee:

- ✓ The proportion of the fund's non-Council organisations. This was confirmed as around 15%.
- ✓ The Fund lists its assets on a unitised basis. This provides a clear, transparent audit trail showing what split between all its employer bodies.

There followed a discussion on the most effective way to secure a focus on good governance, at officer and committee level. An independent healthcheck was suggested as a way of gaining an external objective view. It was proposed to commission such a review offered by CIPFA Business Services.

There was a request for additional wording to be included on page 1 of the plan to clarify that auto-enrolment was to be implemented by employers for their employees.

Resolved:

- a) **That the draft Wiltshire Pension Fund Business Plan 2011-14 be approved with the additional words to clarifying auto-enrolment; and**
- b) **For officers to review the benefits and if appropriate commission an independent health check.**

48. **Date of Next Meeting**

The date of the next meeting of the Wiltshire Pension Fund Committee was confirmed as Thursday 29th September, at the Council offices at Bradley Road, Trowbridge.

49. **Urgent Items**

None.

50. **Exclusion of the Public**

Resolved:

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 Minute numbers 15-18 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraph 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.

51. **South West Actuarial, Benefits & Investment Framework Update**

The Head of the Pension Fund gave a confidential verbal update on the progress towards establishing the shared South West Actuarial, Benefits & Investment Framework.

This was a project led by the Environment Agency and the Wiltshire Pension Fund led on LGPS support within the scheme.

The committee were briefed on the proposed structure and operation of the framework, and were reassured that the procurement process evaluated potential suppliers on both a quality and value for money basis.

Resolved:

To note the update

52. **Additional item - WM Update Paper**

At the request of the Chairman, the committee considered an additional item to discuss the Pension Fund's WM peer group performance ranking. This focused on a previously circulated paper which sought to explain the decline in the WM performance ranking of the Wiltshire Pension Fund (WPF) between September 2010 (52nd percentile) and December 2010 (85th percentile), based on the rolling one year performance.

The Head of Pensions David Anthony spoke to his report, with the following key points emerging from the discussion:

- Members were reminded that the WM rating system was a complex system, with a benchmark based on the combined average of all the LGPS Funds in the survey rather than the WPF's own benchmark.
- The Fund has a higher allocation to property and bonds at the expense of equities and alternatives which would indicate a lower risk strategy than the average. All funds have different asset allocations and therefore different risk and return profile which is why care needs to be taken with peer group comparisons.
- The WPF was underweight in equities relative to the benchmark and overweight in Property.
- WPF is relatively unusual in its use of a currency hedging strategy – this has led to relatively poorer performance in the periods where Sterling is weakening – as has been the case over the last three years.
- The currency hedging strategy should no longer be such a drag factor as Sterling appreciates and the possibility of implementing an active currency hedge may reduce potential negative effects of this hedging.
- Stock selection has also had an impact on relative performance - good performance in Q4 2009 has dropped off more recently with underperformance by the global equity managers.

As a postscript the Q1 2011 data shows the WPF returned 2.1% p.a. for the quarter against the WM benchmark of 1.4% p.a. This was ranked 2nd percentile in the WM universe. For the rolling 1 year performance, the Fund is now showing an 8.1% return, 0.2% behind the WM benchmark but back up to the 47th percentile.

Members of the Committee queried whether or not the Pension Fund had enough resources to provide the Investment Analysis necessary for the Fund. Officer explained that training was ongoing and that the Investment officers were building a system of monitoring, alerts and reviews to ensure that the Fund was responsive to emerging issues of underperformance. It was also highlighted that any governance review by CIPFA or similar organisation would highlight any shortcomings in this area.

The Chairman requested that an update paper be brought to the next meeting, with the outcomes of the changes currently being discussed by the Fund becoming apparent by the January meeting.

53. **Investment Structure Review**

Consideration was given to a confidential report by the Chief Financial Officer which set out the recommendations generated from discussions at the recent Investment Away Day and also various options for the future investment strategy of the Wiltshire Pension Fund.

After a full debate during which various options were examined, it was:

Resolved:

- a) **to implement a dynamic currency hedging programme and to ask officers to commence the OJEU procurement process to enable a suitable manager to be appointed by the Committee;**
- b) **to agree to reduce the strategic allocation for the M&G Financing Fund (by 0.5% of the Fund's assets) to reflect the relative lower value of the investment against the total Fund;**
- c) **to agree to terminate one of the Capital International mandates (either the global equities or AIG) to reduce the single manager risk to the Fund with the decision on which one to be taken within 6-8 months and in the meantime to agree to move the AIG mandate to the new global basis proposed;**
- d) **to make a strategic allocation (7.5% of the Fund's assets) to an Absolute Return Fund mandate and for officers to commence the OJEU procurement process to enable a suitable manager to be appointed by the Committee;**
- e) **to make a strategic allocation (5% of the Fund's assets) to Infrastructure and for officers to commence the appropriate procurement process to enable a suitable manager to be appointed by the Committee;**
- f) **to hold on a temporary basis a strategic allocation within the UK passive equities (3% of the Fund's assets) and the global active**

equities (2% of the Fund's assets) until the funding is required within the Infrastructure mandate; and

- g) to make a strategic allocation of 5% to a global equities passive 'fundamental' index product and for officers to establish a suitable manager to be appointed by the Committee.**

54. Western Asset Management - Review of 2010-11 & Plans for the Future

Simon Gregory and Catherine Matthews from Western Asset Management reviewed the previous year and outlined their plans for the future.

Resolved

To note the information contained in the report and the investment policy detailed by Western Asset Management.

55. Fauchier Partners - Review of 2010-11 & Plans for the Future

Christopher Fawcett and Clark Fenton from Fauchier Partners reviewed the previous year and outlined their plans for the future.

Resolved

- 1) To note the information contained in the report and the investment policy detailed by Fauchier Partners.**
- 2) To review the performance of the Fauchier Partners mandate at the March 2012 meeting.**

(Duration of meeting: 10.35 am - 2.45 pm)

The Officer who has produced these minutes is Liam Paul, of Democratic Services, direct line 01225 718376, e-mail liam.paul@wiltshire.gov.uk

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