Committee and date	Item / Paper
Pensions Committee 9 September 2009 10am	**3** Public

MINUTES OF THE MEETING HELD ON 30 JUNE 2009

10.00 am – 12.15 pm

Responsible Officer Martin Stevens
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Present:
Members:

Mr J Adams, Mr T H Biggins, Mrs A Chebsey, Mr A B Davies,
Mr M G Pate, Mrs J Smith and Mr M Smith

Advisers:

Mr R Bartley of Legal and General
Ms C Bermingham and Mr R Ross of Russell Investment Management

Officers:

Ms L Rowley – Scheme Administrator
Mr G Chidlow – Head of Finance
Ms D Sharp – Exchequer Services Manager
Mr G Tart – Head of Audit (Part of meeting)

1. Election of Chairman

It was proposed, seconded and duly:-

RESOLVED: That Mr Malcolm Pate be elected Chairman of Pensions Committee for the ensuing year.

2. Apologies for Absence and Substitutions

Apologies for absence were received from Mr Dave Wright, Mr Ron Pugh, Mr Charles Tranter and Mrs Patricia Wilson. Mr Dave Wright's substitutes, Mr Keith Austin and Mr Adrian Lawrence also sent their apologies.

Mrs Jean Smith substituted for Mr Ron Pugh. Mr John Adams substituted for Mr Charles Tranter.

3. Appointment of Vice-Chairman

It was proposed, seconded and duly:-

RESOLVED: That Mr Dave Wright be elected Vice-Chairman of Pensions Committee for the ensuing year.

4. Declarations of Interest

There were no declarations of interest.

5. Minutes

RESOLVED: That the non-exempt minutes of the meeting held on 25 March 2009 be approved and signed by the Chairman as a correct record.

6. Introduction to Shropshire County Pension Fund

6.1 The Scheme Administrator gave a brief overview of the Shropshire County Pension Fund. She stated that she would also be meeting with the Members that were new to the Pensions Committee to give them further background information on the Shropshire County Pension Fund.

6.2 She stated that over a period of twelve months the Pensions Committee received a presentation from each of the Investment Managers about their performance. Performance was monitored against benchmarks and targets. Benchmarks she described as being the industry standard whereas targets were what the Shropshire County Pension Fund wanted the Investment Manager to deliver. If managers were given an aggressive target against the benchmark then typically there would be significant volatility in their performance.

6.3 The Shropshire County Fund was a diversified Fund with broadly 75% in equities with a whole range of managers managing these investments. Investment managers had different benchmarks and different targets to try and achieve. By having diversification the risk to the Fund was reduced. In the last year largely due to the global financial crisis, the Fund had been performing consistently badly, the Fund was not used to a high level of volatility but this was perhaps a sign for the future.

6.4 The primary long term objective was to achieve and maintain a funding level at or close to 100% of the Fund's estimated liabilities and in achieving this objective to maintain low and stable employers' contribution rates. The trustees of the pension scheme had a duty to put the financial interests of the scheme members above all other considerations in determining investment policy. The Fund employed an external provider to visit companies on its behalf to try and influence their behaviour on the environment and in society in general, in a positive fashion. The Fund would soon be appointing a Global Equities Manager. The Chairman stated that the training which Members received was excellent and Members were normally invited to London each year to meet financial experts in their field.

7. Governance Compliance Statement

7.1 The Scheme Administrator introduced the Governance Compliance Statement report. She referred to the work of Paul Myners who had been commissioned by the Government to review Institutional Investment in the UK. Myners had set out a number of principles of best practice to Governance. In 2008 the Government had issued a report outlining best practise in local government pension schemes. Pension funds were required to outline compliance against a range of best practice principles. The Shropshire Fund adhered to all the best practice principles listed in the government report and these were included in the Funds Governance Compliance Statement.

RESOLVED: That the revised Governance Compliance Statement that will be issued to Employers be agreed.

8. Statement of Investment Principles

8.1 The Scheme Administrator introduced the report detailing the proposed Statement of Investment Principles. She referred to the Fund's current strategic asset allocation and target strategic asset location and invited Mr Ross to explain the asset classes.

8.2 Mr Ross stated that there were two key pieces of information contained in the table on page 8 of the report. The first being the percentage allocation of the Fund in each asset class and the second the percentage of investment with each Investment Manager. Twenty-Five per cent of the Fund was in bonds and seventy-five per cent was in equities and property. There was an expectation that the investment in equities and property would yield a higher return than the investment in bonds. It was also true that volatility was higher in equities and property than in fixed interest investments. As the Fund had its largest investment in UK Equities it had more than one investment manager. The Fund employed a range of specialist investment managers in each particular area. The Fund would soon be appointing a Global Equities Manager.

RESOLVED: That the revised Statement of Investment Principles be approved.

9. European Equities – AXA Rosenberg

9.1 Gideon Smith – Chief Investment Officer and Sally Walter – Portfolio Manager from AXA Rosenberg gave a presentation to the Committee. Ms Walter stated that their mandate was to add 2% above the benchmark, gross of fees over rolling three year periods. She stated that it had been a particularly difficult period recently. She said that equities gave a link to corporate profits and earnings growth. She stated that their aim was to create a portfolio with an earnings advantage.

9.2 Ms Walter stated that their recent performance did not make comfortable reading and was not higher than the benchmark. There had been some bright periods at the start of 2008 in the first and second quarter but this had been more than outweighed by the other periods.

9.3 Mr Smith stated that one of their core principles was that earnings mattered. Even if they were underperforming if they could assure themselves that they had managed to find cheap earnings, fundamentally the models were working. He stated that two models were used to select stocks. The valuation model identified the most attractive priced stocks in each industry. He stated that over the last two to three years the market in general had not rewarded value investing as a concept. He recognised that it was not enough just to buy cheap companies which was why they had the second model, the Earnings Forecast Model. This looked at superior year ahead earnings in each industry.

9.4 Mr Smith stated that in the first quarter of last year when markets were falling by 20-30%, people were not selling the worst companies they were selling just what they could. He added that when the markets rallied recently people were not buying the cheapest companies or those with the strongest earnings growth, they were buying the most liquid companies. Nevertheless AXA Rosenberg continued with their basic investment principles of capturing an earnings advantage. The company in Europe had outperformed in most years with the exception of 2007 and 2008. The Shropshire portfolio had delivered a consistent earnings yield advantage but this had not been rewarded recently because of extraordinary market environments.

9.5 The Chairman asked how they judged share value. Mr Smith in response said that ultimately prices did reflect earnings potential and that markets showed price discipline. When prices did get disconnected with earnings, forces would drive them back.

9.6 Mr Smith gave a detailed overview of their performance quarter by quarter. He stated that a disconnect between earnings and returns had arisen because from 2003 -2007 valuation dispersion diminished, thereby reducing the opportunity set. From mid 2007 to present, opportunities had increased dramatically, but rewards had been concentrated in stocks with earnings certainty, as investors expected current earnings to collapse. Volatility offered opportunity but it also could work against them. The market had been rewarding low risk investments. Market distortions were currently extreme but there would be opportunities in the future for their investment process as distortions normalised.

9.7 Ms Walters stated that in quarter 2 of 2008 the portfolio outperformed strongly but the financial crisis led to investor focus on macro themes rather than earnings. Their underperformance in the nine months leading to 31 March had been driven by stocks from the materials industry. She described where the portfolio was overweight and underweight and how this had changed since March 2008. The portfolio was presently overweight in telecoms and healthcare and underweight in concessionary discretionary. She was confident that performance could be delivered because in a perverse way the more extreme markets had become the more positive they were for future potential in their performance. Under valued stocks had been become more and more undervalued and overvalued stocks more and more overvalued. This dispersion at some stage would reverse and normalise providing the potential for the portfolio to recover.

9.8 Mr Bartley asked about the prospect of extra risk management because if the poor performance continued then further money would be lost. Mr Smith stated that he would prefer not to go down this route; improvements were being made to the earning forecast model.

9.9 Mr Bartley stated that the figures provided in the report were gross returns, which was all the more concerning given the underperformance. He was particularly disturbed with the extreme underperformance in the second quarter given that the environment had improved. There was little evidence of risk control which helped to stop extreme events.

9.10 It was suggested that AXA Rosenberg performance should be monitored on a monthly basis and that a further report on their performance be provided to the Pensions Committee at the next meeting. The Scheme Administrator said she would be making a special visit to AXA Rosenberg on 7 July to discuss their poor performance.

RESOLVED: That AXA Rosenberg performance be monitored on a monthly basis and that an update report on their performance be provided at the next meeting of the Committee.

10. Emerging Markets – F & C Investments

10.1 Sam Mahtani – Director/ Portfolio Manager and Jeff Chowdhry – Head of Emerging Market Equities from F & C investments gave a presentation to the Committee. Mr Chowdhry stated that the value of the portfolio on 31 March 2008 was £46.9m but in the last year it had had fallen by 25.8% meaning the value of the Fund on 31 March 2009 was £39m. The markets had been extremely volatile. The Fund had benefited from the extra £4 million invested in November 2008. In the last seven years there had been two occasions when further money had been invested and two occasions when they had requested that the Fund take money out.

10.2 Mr Chowdhry stated that in the last three years their performance had been better than the MSCI Emerging Markets Benchmark. They had been underweight in central Europe over the last twelve months which had helped performance. In terms of asset allocation Malaysia and Chile had performed badly and stock selection in Brazil and South Africa had been poor. The asset allocation in Poland and Russia had performed well as had stock selection in Taiwan.

10.3 Mr Chowdhry stated that growing domestic demand and falling interest rates remained the main theme in the portfolio. The portfolio was overweight in oil, gas and financials but underweight in the technology sector and materials sector.

10.4 Mr Chowdhry detailed the top ten holdings of the portfolio and the countries where the portfolio was neutral, overweight and underweight. He described the term active money which was the sum of the variation of the index at the top and bottom ten over and underweight stocks. As of March 2009 it was at 22.69 % of the Portfolio. He also detailed the tracking error history; the tracking error figure at March 2009 was 2.94%. He concluded by saying that he thought emerging markets were a great long-term investment.

11. Pensions Administration Monitoring

11.1 The Exchequer Services Manager introduced a report on the performance of the Pensions Administration Team. She stated that there were 14,832 active employers in the Pension Fund, 9,443 deferred pensioners and 8,455 pensioners, widows and dependants.

11.2 The team were aiming to increase the percentage of procedures processed on time. A lot of communication work had been undertaken including a retired pensioners meeting in June at the Theatre Severn, which over 200 pensioners attended. They were looking to offer retirement seminars in Shropshire having recently attended a seminar run by the West Midlands Pension Fund in conjunction with Prudential.

11.3 The Scheme Administrator paid tribute to the tremendous amount of work which the Pensions Administration team had completed in the past year.

RESOLVED: That the report be noted.

12. Communications Policy Statement

12.1 The Head of Finance introduced a report on the Pension Funds Communication Statement which the Fund was required to publish under the Local Government Pensions Scheme Regulations. It outlined the communication channels that the Fund used to communicate with stakeholders.

RESOLVED: That the revised Communications Policy Statement be agreed.

13. Local Government Pension Scheme Regulations Update

13.1 The Exchequer Services Manager introduced a report on the changes and developments in the Local Government Pension Scheme Regulations. A recent Court of Appeal Case had ruled that former employing authorities with no active members were not liable to make good any funding deficit in respect of their deferred and pensioner members. This decision had no immediate impact on the Fund but it was important to note for the future. The CLG were currently consulting on proposed amendments to regulations on the accounts. They were also consulting on how best to extend the high standards of member and other non-elected stakeholders participation and active involvement in the governance of the scheme and how future improvements could be made.

RESOLVED: That the report be noted.

14. Corporate Governance Monitoring

14.1 The Head of Finance stated that the PIRC report outlined the Corporate Governance and Socially Responsible Investment issues arising in the quarter 1 January to 31 March 2009.

RESOLVED: That the PIRC Quarterly report and F & C Responsible Engagement Overlay report be noted.

15. Internal Audit of Pension Fund

15.1 The Head of Audit presented a report on the main findings identified from Internal Audit work undertaken in 2008/09. He stated that there were no areas of significant weakness or areas for significant improvement that were evident from the work completed in the last year. The systems and procedures were very good.

RESOLVED: That the report be noted.

16. Exclusion of the Press and Public

RESOLVED: That under paragraph 10.2 of the Council's Access to Information Procedure Rules that the proceedings of the Committee in relation to Agenda Items Nos. 17 -19 shall not be conducted in public on the grounds that they involve the likely disclosure of exempt information as defined by the categories specified against the items.