



<u>Committee and Date</u>
Pensions Committee
25 November 2009
10.00 am

<u>Item</u>
3A
Public

MINUTES OF THE MEETING HELD ON 9 SEPTEMBER 2009

10.00 am – 12.15 pm

Responsible Officer Martin Stevens

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Present: Mr T H Biggins, Mrs A Chebsey, Mr A B Davies, Mr M G Pate (Chairman), Mr R Pugh, Mr M Smith, Mrs P Wilson and Mr D Wright.

1. Apologies for Absence and Substitutions

There were no apologies for absence or substitutions.

2. Declarations of Interest

There were no declarations of interest.

3. Minutes

RESOLVED: That the non-exempt minutes of the meeting held on 30 June 2009 be approved and signed by the Chairman as a correct record.

4. Public Questions

There were no public questions.

5. UK & US Equities – Goldman Sachs

5.1 Gillian Evans and Gary Chropuvka (Head of Client Portfolio Management) from Goldman Sachs presented to the Committee. Mr Chropuvka stated that the company undertook a considerable amount of fundamental analysis and research. They believed that people under reacted to information and that the quality of company earnings was important. Goldman Sachs managed about £45 billion, their quantitative investment strategies team had a wide range of products. He stated that their processes were flexible to meet the diverse needs of their clients. There were about 150 people working for the business with over 1000 years of combined practitioner experience.

5.2 Mr Chropuvka described the current Market Environment. The Global equity markets had rebounded significantly in the second quarter of 2009 after a weak start to the year. Returns on financials had done incredibly well in the second quarter having fallen sharply in the first quarter.

Mr Chropuvka stated that the extremely negative return to price momentum had been driven by a sharp rebound in the prices of beaten down loser stocks, which led to the market rally that began on 10 March 2009. The return from price momentum in April 2009 was the worst monthly return from this factor since 1932.

- 5.3 Mr Chropuvka stated that the QIS research effort had been focused on looking for more proprietary and less crowded factors as they believed this would improve long-term performance. Factor delay could be an indicator of the crowdedness of a signal. He outlined other recent enhancements and the research agenda stating that there had been a change in theme contribution to risk after recent enhancements. They were coming up with innovative ways of adding value. They had been disappointed with their performance over the last twelve months but conviction was very high. Members asked if performance had been bad because of the market or their strategy. In response Mr Chropuvka stated that it was both the market and the strategy combined but they were continuing to evolve and be more dynamic. The Market was always changing and so they were making enhancements to their research. He stated that 25 -30 % of their enhancements made it through the final process.

6. Japanese Equities – Baillie Gifford

- 6.1 Catrina Henderson and Matthew Brett (Investment Manager) from Baillie Gifford gave a presentation to the Committee. She stated that they had been appointed in April 2006 to manage a specialised Japanese equity portfolio. Their objective was to outperform the FTSE World Japan Index by 2% per annum net of fees, over rolling three year periods. They had a distinctive growth oriented, stock driven long term approach to investment. The Japanese Equities team consisted of seven members. Sarah Whitely was the Head of Department with the only significant recent change being the addition of Toshi Yanaka as an Independent Research Consultant looking into specific themes and topics on behalf of the company. Toshi was based in Japan and the company were finding that her research was adding value to the investment process.
- 6.2 Ms Henderson stated that the market had gone through an extraordinary period last year which meant demand for Japanese exports fell resulting in a collapse in industrial production. There had been some constructive developments recently with signs of recovery in Japan and globally. Industrial production in Japan had stabilised. They were cautiously optimistic and were continuing to focus on long term growth stocks. She talked about performance of the portfolio stating that there had been an improvement in relative performance over the last twelve months but there was disappointing absolute returns. She said that short term performance remained volatile.
- 6.3 Mr Brett discussed the top ten stock contributors and the bottom ten stock contributors. Positions in more defensive long term growth stocks had helped, these were Tsumura, Rakuten and Bridgestone. A holding in SFCG had performed badly but the purchase of Nomura had been beneficial.

- 6.4 Members asked why performance in June 2009 had been poor when over the year the fund had outperformed the benchmark. In response Ms Henderson stated that performance on a monthly basis could go up and down easily because of the volatility of the market and so it was better to look at quarterly performance. There was nothing hugely significant about performance in the month of June. She highlighted the figures up until the end of August and the Portfolio was ahead.
- 6.5 Mr Brett detailed the largest overweight and underweight positions by sector in the portfolio. The largest overweight sector was general retailers and the most underweight sector was banks. He described the four biggest factors behind Japanese recession as being, the export cyclicality and multiplier effect, the strong Yen exacerbated by the manufacturing downturn, the ineffectiveness of the Bank of Japan's policy and domestic consumer weakness. There were some positive aspects in the outlook for Japan including a move to a two party political system, the financial system remaining relatively intact and valuations in Japanese markets remaining low. There were also some negatives including structural problems such as demographics and high levels of government debt. Domestic caution remained a problem.
- 6.6 They concluded their presentation by stating that the company remained privately owned with no outside pressures to cut costs or protect earnings. The team was stable and the company remained profitable and well-capitalised

7. Pacific (ex Japan) Equities – Martin Currie

- 7.1 Mr Keith Burdon (Director, Client Service) and Richard Evans (Director, Portfolio Manager) from Martin Currie gave a presentation to the Committee. The company managed funds just short of £10 billion. They were an independent business and were majority owned by employees. They had offices all over the world with about 90% of money invested outside the UK. They took a fundamental stock picking approach exploiting the best investment opportunities. The company believed in a structured research approach with fundamental research focusing on quality, value, growth and change.
- 7.2 In their presentation they stated that Asian Markets had recovered sharply from the March low and were now outperforming global indices by more than 25%. Earning momentum was beginning to recover but most notably for the stronger franchises who were taking market share. They saw medium term challenges to the Asian export sector as it adjusted to lower demand growth in the West. They thought that strong brands and technology were key investment areas.
- 7.3 Mr Robert Ross asked about the Chinese Market. In response they stated that the Chinese and Hong Kong market was volatile and they had to be aware that it could be a bubble situation.

8. Pensions Administration Monitoring

- 8.1 The Exchequer Services Manager stated that the performance in the Pensions team had been very good. The Annual Meeting for 2009 would be held on Tuesday, 10 November with there being three meetings in total. One would be held at the Civic Offices in Telford and a further two meetings in the afternoon at the Lord Hill Hotel. All Committee Members were invited to attend the meeting.
- 8.2 She stated that all the employee records of the former Borough's, District's and the County Council had been updated to show Shropshire Council as the employer. The processes required for the Year End had been very successful and they had received excellent feedback from the Scheme Actuary at the last valuation.

RESOLVED: That the report be noted.

9. Audit Commission Report on Annual Accounts 2008 / 2009

- 9.1 Mr Grant Patterson (District Auditor) stated that Local Government Pension Funds were not statutory bodies in their own right and so in general it was not possible for separate audit appointments to be made for Local Government Pension Scheme Audits. However the Audit Commission had now decided that the assets, liabilities and cash flows of local funds were significant enough to warrant the audit of the Local Government Pension Scheme separately. This was the first year of the new arrangements requiring him to report separately on the Shropshire County Pension Fund. He was pleased to report that his audit work had gone well and there were no matters of concern which he wished to bring to the attention of the Committee. Before he could complete his audit he needed the letter of representation on behalf of the Council and the financial statements within the report to be approved by the Committee.

RESOLVED:

- A) That the letter of representation on behalf of the Council attached at appendix 2 to the report be approved.
- B) That the Financial Statements contained on pages 4 and 5 of the report, a copy of which is attached to the signed minutes, be approved.

10. Pension Fund Annual Accounts 2008 / 09

- 10.1 The Head of Finance stated that the investment performance of the fund over the last year had been poor. In the year to the end of March 2009 the Fund had fallen in value by £193 million to £716.2 million.

RESOLVED: That the Pension Fund Annual Report 2008/09 be approved.

11. Consultation on the LGPS – Delivering Affordability, Viability and Fairness

- 11.1 The Scheme Administrator stated that the Department for Communities and Local Government had initiated an informal consultation. The details were covered comprehensively in the report, a copy of which is attached to the signed minutes.

RESOLVED: That the letter circulated as Appendix A to the report be agreed as a response to the consultation and be sent to the Department for Communities and Local Government.

12. Corporate Governance

- 12.1 The Head of Finance introduced a report, a copy of which is attached to the signed minutes, on Corporate Governance.

RESOLVED: That the report and its appendices be noted.

13. 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 No 14 -16 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.