



<u>Committee and Date</u>
Pensions Committee
24 November 2010
10am

<u>Item</u>
3
Public

MINUTES OF THE MEETING HELD ON 30 SEPTEMBER 2010

3.00pm – 6.15 pm

Responsible Officer Martin Stevens

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Present: Mr T H Biggins, Mrs A Chebsey, Mr A Davies, Mr M G Pate (Chairman) and Mrs J Smith.

1. Apologies for Absence and Substitutions

Apologies for absence were received from Mr Ron Pugh, Mr Malcolm Smith and Mr David Wright.

2. Declarations of Interest

There were no declarations of interest.

3. Minutes

RESOLVED: That the non-exempt minutes of the meeting held on 21 June 2010 be approved and signed by the Chairman as a correct record.

4. Public Questions

There were no public questions.

5. Martin Currie (Pacific ex UK Equities)

5.1 Mr Keith Burdon and Mr Richard Evans from Martin Currie gave a presentation to the Pensions Committee.

5.2 They stated that performance had been disappointing and as a consequence they were looking to improve how they assured positive change. They intended to do this by improving the way the portfolio benefited from the franchise, balance sheet restructuring, implementing new strategy and management techniques and addressing the issue of delivery versus expectations.

- 5.3 In reviewing 2009 a number of important lessons had been learnt. They had been too orthodox in the application of the process. There was a need to balance focus on quality and earnings momentum with value and they needed to be more sensitive to portfolio risk at market extremes.
- 5.4 The Chairman asked at what point Martin Currie would change their investment strategy. In response Mr Evans stated that the strategy would only change if the market conditions fundamentally changed. Presently they were comfortable with the process. The Chairman stated that over five years Martin Currie had actually underperformed the benchmark but had done better in June of this year. Mr Evans stated that it was expected that performance would be good in quarter 3.
- 5.5 Mr Evans stated that Asian fundamentals remained strong. The Asian currency was undervalued. The Asian markets offered the best global value and return prospects. The portfolio was underweight in Australian Banks as they did not believe them to be a good long-term investment.

6. Baillie Gifford (Japanese Equities)

- 6.1 Ms Catrina Henderson and Mr Donald Farquharson from Baillie Gifford gave a presentation to the Pensions Committee. Ms Henderson stated that Baillie Gifford had been appointed in April 2006 to manage a specialist Japanese equity portfolio. The objective that had been set them was to outperform the FTSE World Japan Index by 2% per annum, net of fees, over rolling 3 year periods. A fundamental, growth-orientated, long-term stock-picking approach had been adopted. The Japanese team consisted of six key people based in Edinburgh. Much of the team's time was spent doing research.
- 6.2 There had been a continued improvement in relative performance over the last 12 months. A member of the Committee stated that the fund was slightly below benchmark since its inception.
- 6.3 Mr Donald Farquharson gave an overview of the portfolio. He described the positives of investment in Japan as follows:
- Positioning to benefit from longer term growth in Asia
 - Japan was geared to global recovery
 - The financial system was relatively intact
 - Several companies were achieving close to record margins
 - Share buy backs and subsidiary buy-ins were increasing
 - Valuations and balance sheets were strong

He described the negatives as being:

- Structural problems
- Domestic consumer caution
- Risk of Asian catch up

- 6.4 The Chairman asked if the Yen currency was a problem. In response Mr Farquharson stated that the Yen effected the translation of earnings but it didn't undermine overall competitiveness. The main problem in Japan was structural and the 3D's, deflation, government debt, and demographics. At the moment the market did not appreciate Japan's export opportunities. Technology and retail were growth opportunities in Japan. The I-Phone and the I-Pad had been big successes in Japan.
- 6.5 Mr Farquharson described two stocks Canon and Rakuten which were part of the portfolio both of which had great future potential. Ballie Gifford believed in investing in companies and not the macro economy. They identified significant growth opportunities at an individual company level.

7. **Goldman Sachs (US Equities)**

- 7.1 Ms Gillian Evans and Mr Andrew Alford from Goldman Sachs gave a presentation to the Pensions Committee. They outlined why they thought performance in the last two years had been poor. In order to improve performance they were seeking to exploit profit opportunities using a more proprietary investment process, capitalise on new information more quickly and trade more anonymously.

8. **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 Item Numbers 9-10 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.

11. **Pensions Administration Monitoring**

- 11.1 The Exchequer Services Manager stated that the Annual Meeting would be held on Tuesday, 2 November 2010 and asked Members of the Committee to let her know if they wished to attend. Annual Benefit Statements would be issued to all active and deferred scheme members at the end of September 2010.

RESOLVED: That the report be noted.

12. **Corporate Governance**

The Head of Finance introduced a report on Corporate Governance Monitoring, a copy of which is attached to the signed minutes. It was worth noting that PIRC had voted at 43 UK and 148 US Annual and Extraordinary General Meetings.

RESOLVED: That the report be noted.

13. Internal Audit Work for Shropshire County Pension Fund

The Head of Audit introduced a report on the internal audit work for the Shropshire County Pension Fund, a copy of which is attached to the signed minutes. She stated that a number of areas had been audited and overall there were no significant weaknesses. It was her opinion that the Shropshire County Pension Fund had an adequate and effective system of internal control in place to ensure the proper running of the Fund and avoid material misstatements in the accounts.

RESOLVED: That the report be noted.

14. Audit Commission Report on Annual Accounts 2009 /10

Mr Grant Patterson from the Audit Commission presented the annual governance report, a copy of which is attached to the signed minutes. He was proposing to issue an unqualified opinion on the financial statements within the Pension Fund's Annual Report.

RESOLVED:

- A) That the letter of representation on behalf of the Pension Committee be approved.
- B) That the proposed action plan (appendix 3 of the report) be agreed.

15. Pension Fund Annual Accounts 2009/10

The Head of Finance introduced a report on the Pension Fund Annual Accounts, a copy of which is attached to the signed minutes. The Fund had increased in value by 32% over the year outperforming its benchmark by 2.6%. The Fund had increased in value by over £230 million to be valued at £951 million at the end of the year.

RESOLVED: That the Pension Fund Annual Report 2009/10 be approved.

16. Admission Bodies

The Exchequer Services Manager introduced a report on admission bodies, a copy of which is attached to the signed minutes.

RESOLVED: That it be noted that a staff TUPE transfer to Taylor Shaw requiring an admission agreement by Legal Democratic Services will take place. The agreements will be sealed with the County Seal.

17. 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 item numbers 18 – 19 shall not be conducted in public on the grounds that they involve the likely disclosure of exempt information as defined by the category specified against the item on the agenda.

Chairman.....

Date.....