Committee and Date	Item No
Pensions Committee 23 February 2011 10am	**3** Public

MINUTES OF THE MEETING HELD ON 24 NOVEMBER 2010

10.00 am – 12.45 pm

Responsible Officer Michelle Evans
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Present: Mr S Bentley, Mr T H Biggins, Mrs A Chebsey, Mr A Davies, Mr M G Pate (Chairman), Mr R Pugh, Mr M Smith and Mr C Tranter

1. Apologies for Absence and Substitutions

1.1 Apologies were received from Mr D Wright and Mrs P Wilson.

1.2 Mr S Bentley substituted for Mr D Wright.

2. Declarations of Interest

2.1 No declarations of interest were made.

3. Minutes

3.1 **RESOLVED:** that the non-exempt minutes of the meeting held on 30 September 2010 be approved and signed by the Chairman as a correct record.

4. Public Questions

4.1 There were no public questions

5. HarbourVest Partners (Private Equity)

5.1 Mr George Anson and Ms Hannah Tobin gave a presentation on the performance of the Private Equity portfolio which covered the following topics:

- Overview of HarbourVest including a chronology of the firm, its leadership structure and its investment strategy.
- Investment performance in both the US and Europe as at 31 March 2010
- What Private Equity was, how it operated and how it created value for investors.
- Shropshire County Pension Fund – Overview of Commitments as at 30 June 2010
- Overview of how the fund was performing including market diversification and estimated portfolio capital calls.

5.2 The Chairman queried whether performance for the Direct Fund at -9.4% was because it was early in the cycle. In response Ms Tobin confirmed that this was partly the case but also that in the last 18 months the J Curve had become elongated due to the requirement to mark valuations to the public market. However, valuations were beginning to return upwards.

5.3 Mr Anson explained that in 2008 Equities were at the bottom of the market cycle with low capital valuations, however, the position had improved leading to greater liquidity and positive cash flows. Some growth was being seen in opportunities in Asia Pacific and Emerging Markets. He was encouraged to see a gradual increase in the number of Private Equity investments available.

5.4 Mr Anson and Ms Tobin answered a number of queries from both Members and Advisers.

5.5 In response to a query about currency variations, Mr Anson explained that they invested over a long period of time at different currency rates and so currency variations had very little impact due to this smoothing effect.

5.6 Mr Anson confirmed that HarbourVest would be committing more to Asia as a large growth area but would be exercising caution.

6. BlackRock (Fund of Hedge Funds)

6.1 Mr Brian Johnston and Ms Joanne Priestly gave a presentation on BlackRock and the Fund of Hedge Funds which covered the following areas:

- Purchase of Barclays Global Investors and breakdown of assets managed by BlackRock
- BlackRock Alternative Advisors Overview
- Portfolio Characteristics
- Review of performance for year
- Shropshire County Pension Fund investment Summary and Outlook

6.2 Mr Johnston discussed the changes at Blackrock following the purchase, at the end of last year, of Barclays Global Investors. He explained that the purchase, which had gone well, had doubled the size of BlackRock and had allowed them to provide more customised solutions for their clients. It had had no impact on the mandate the team managed for Shropshire and an encouraging response had been received from Clients. Progress on integration of systems would be ongoing for the next 12 to 18 months.

6.4 Mr Johnston drew Members' attention to the breakdown of assets managed by BlackRock. He stated that BlackRock managed considerably more assets than previously, especially in Alternatives and Multi-Asset classes. He then briefly touched on BlackRock Alternative Advisors and the QIP Portfolio Characteristics.

6.5 Mr Johnston highlighted the review of performance for the year including innovations made to the portfolio and their impact, together with an overview of the portfolio investments, which were very diverse. The portfolio had a strong weighting in the US but was underweight in Europe.

6.6 Mr Johnston reported that the portfolio value as at 31 October 2010 was £33.12m which was up by 26.2% since inception and 9.16% in the last 12 months. The portfolio had performed very strongly in 2009 which had carried on into 2010 and was up 6.96% year to date.

6.7 Mr Johnston and Ms Priestly answered a number of queries from both Members and Advisers. In response to a query Ms Priestly explained the rationale for how allocations were defined and she explained where allocations were compared to a year ago:

- Relative Value 29.3% compared to 31% last year
- Event Driven 18.7% compared to 13.5% last year
- Fundamental Long/Short was down to 43.7% from 45% last year.
- Direct Sourcing was down to 7.7% from 10% last year

Ms Priestly stated that they had been running the fund for 15 years now and their strategy allocation had worked most of the time.

6.8 The Chairman commented that he had thought that the hedge fund had thrived on volatility in 2008 but that it had not done well in this environment. In response Ms Priestly explained that the market needed liquidity and she gave an example of where they had to sell all securities into the market but there were no buyers so they could not sell at any price. The Chairman questioned how their strategy would change if this happened again and Ms Priestly replied that they would not expect liquidity to be withdrawn from the market in the future.

6.9 In conclusion it was confirmed that the portfolio was well positioned and well diversified and it had been a good year to date.

7. Man Investments Ltd (Fund of Hedge Funds)

7.1 Paul Dackombe and Mr Luke Ellis gave a presentation on the Fund of Hedge Funds Portfolio which covered the following areas:

- Introduction to Man Investments
- Man Investments Multi-Manager-Business
- Man Investments Absolute Return Strategies II

7.2 Mr Dackombe informed the Committee that in October 2010, Man Investments Ltd had acquired GLG Partners, Inc. A lot of work had been done to combine the two businesses and it had been a seamless acquisition/merger.

7.3 Man Investments managed approximately $65 billion, had 1700 employees in 15 countries and were a constituent of the FTSE 100 Index. This allowed them to offer a wider, more diverse range of solutions/products to their clients. They had felt that their offering had a shortage of single manager funds so it had been a very appealing prospect to combine with GLG as it would bring a lot to the group and client base.

7.4 In response to a query Mr Dackombe explained that synergies had been made by combining similar systems and that both the legal and sales teams had been downsized. Going forward there was still work to be done to bring the two companies closer together. Mr Dackombe explained that there was already a great structure and processes in place but there was a lot of spare capacity so they had tried to retain/attract talent to encourage more creative and dynamic thinking.

7.5 Mr Dackombe informed Members of Man Investments' managed accounts platform which allowed for control over assets, transparency and liquidity and provided an increased level of security around fraud and liquidity. In response to a query Mr Ellis explained that they had significant due diligence, with a team of 9 trained auditors.

7.6 Mr Dackombe responded to a query by the Chairman as to what was held as security in an unmanaged fund by stating a managed account enabled the purchase of a share in or part of a hedge fund.

7.7 It was reported that year to date performance had been decent and the Portfolio had made money in a steady way. There was however a lot of volatility in the market and varying views about the big picture. There were opportunities for macro trading and there were a lot of opportunities in emerging markets.

7.8 Mr Dackombe and Mr Ellis answered a number of questions from both Members and Advisors. In response to a query Mr Dackombe explained that although the portfolio had underperformed overall due to volatility in the market in 2008 and a prime broker (Lehman Bros) going bankrupt, it had outperformed in the last quarter.

8. Mercers

8.1 Mr John Livesey gave a presentation on the 2010 Actuarial Valuation which covered the following areas:

- 2010 Valuation - Key Issues
- Financial Assumptions – key changes
- Recap of 2007 Actuarial valuation Whole Fund results
- 2010 Whole Fund results
- Past Service funding position
- Future Service contribution rates
- 2010 Actuarial Valuation results
- Managing the contribution outcomes

8.2 Mr Livesey discussed the four key issues of the 2010 valuation which were affordability, assumptions made, risk management and changes to the Local Government Pension Scheme.

8.3 Mr Livesey informed the Committee that an assumption had been made about the anticipated rate of salary growth (1.5% per annum above CPI), they had allowed for the short term public sector pay freeze and had assumed a major change to the rate of future inflation due to using the CPI and not the RPI (0.8% per annum).

8.4 Mr Livesey then discussed the demographic assumptions made in relation to life expectancy and ill health retirement. Reductions had been made in the number of ill health retirements however savings were being reduced as most cases were tier 1 benefits. Life expectancy was improving which had been allowed for and there was some scope for reducing the overall impact. Past service liabilities had reduced by 0.5% whilst future service contribution rates had reduced by 0.4% of pay.

8.5 Mr Livesey informed Members that the results had not been as bad as had been expected. The funding level had reduced a little to 81%, the deficit recovery period was down from 22 to 19 years and the total average contribution rate was 17.5% which had increased by 1.2% from 2007.

8.6 Mr Livesey drew Members' attention to the reasons for the increased deficit and increased contributions. In order to be affordable there needed to be some flexibility. Mr Livesey touched on the issue of whether to show deficit contributions as £ amounts which increase in line with inflation or as % of pay.

8.7 Mr Livesey answered a number of queries in relation to ill health retirement, the Hutton Report and the deficit recovery period.

8.8 Mr Livesey confirmed that there was scope for individual employers in the scheme to increase their deficit recovery period up to 25 years so long as it did not lead to a reduction in contributions. Mr Livesey stated it was not imprudent to use a deficit recovery period of up to 25 years for employers with a strong covenant. Mr Livesey explained that benefits were guaranteed by statute and that the Fund as a whole picked up the cost. There was no legal requirement for the deficit recovery period to be 19 or 25 years, it was at the discretion of the fund.

9. Actuarial Valuation 2010

9.1 The Committee received the report of the Head of Finance (Treasury and Pensions) – copy attached to the signed Minutes – which introduced the formal presentation of the 2010 Actuarial Valuation Report from the Fund's Actuary, Mercers.

9.2 **RESOLVED:** That the Actuarial Valuation Report be approved.

10. Funding Strategy Statement

10.1 The Committee received the report of the Head of Finance (Treasury and Pensions) – copy attached to the signed Minutes – which informed Members of the requirement to publish an updated Funding Strategy Statement and set out the Funding Strategy Statement which had formed the basis of the 2010 Actuarial Valuation.

10.2 The Head of Finance (Treasury and Pensions) explained that the statement set out all assumptions applied to the Fund and included the recommendation to collect deficit recovery amounts as lump sum payments rather than as a percentage of salaries.

10.3 It was confirmed that all participating employers had been consulted on the updated content of the Funding Strategy Statement at a meeting in November 2010. The only comment that had been received was from Telford & Wrekin Council who did not like the fixed lump sum deficit recovery plan and wished to continue with a percentage deficit recovery but were happy to use any cost savings from the Hutton Review to be added into the Fund to compensate for the effect of a reduction in payroll.

10.4 A brief discussion ensued in relation to the deficit recovery period. The Head of Finance (Treasury and Pensions) confirmed that whilst the Funding Strategy Statement allowed a deficit recovery period of up to 25 years for employers with a strong covenant to be used, it was up to the employer and the Scheme Administrator to use discretion in this respect. The Actuary confirmed that it would not be imprudent to have a deficit recovery period of 25 years however there was scope to restrict some employers to 19 years.

10.5 **RESOLVED:** That the updated Funding Strategy Statement be approved.

11. Investment Strategy Review

11.1 The Committee received the report of the Head of Finance (Treasury and Pensions) – copy attached to the signed Minutes – which summarised the current target strategic asset allocation for the Fund and the timescale for the review which would be conducted by AON Hewitt.

11.2 **RESOLVED:** To note that AON Hewitt had been requested to complete a strategic asset review and report interim findings at the February Committee.

12. AON Hewitt Associations

12.1 Mr John Belgrove and Mr David Crum gave a presentation on the investment strategy revision which covered the following areas:

- Current position
- Setting objectives
- Assessing investment risks
- Strategy review cycle
- Selecting assets and management structures
- Summary

12.2 Mr Crum felt that the Shropshire County Pension Fund was already ahead of its peers in terms of strategy. He summarised the current position and explained that the gap between assets and liabilities needed to be closed and suggested how this could be done by making the assets work harder.

12.3 Mr Belgrove stressed the importance of undertaking a strategic review every three years however they needed to think of it not as a once in three year exercise, it should be regarded as a living exercise of managing assets in a real time structure.

12.4 Looking at the relative importance / impact on investment performance, the impact at individual fund manager level was very small. They wished to create a framework to take this up a couple of levels by thinking, for example, was the decision to invest fit for purpose for the current financial conditions. He stated that the framework for risk/reward relative to liabilities was not just a one off, but an ongoing process.

12.5 In response to a query Mr Belgrove explained that the least risk route was unaffordable so they had to take some risks but they also needed to be aware at what point it became too risky. Finally, Mr Belgrove explained the strategic review cycle.

13. Pensions Administration Monitoring

13.1 The Pensions Team Leader introduced the report of the Exchequer Services Manager – copy attached to the signed Minutes – which provided Members with monitoring information on the performance of the Pensions Administration Team. An amended performance chart showing the team's performance to the end of October 2010 was circulated.

13.2 The Pensions Team Leader reported on a training day for the team held on 15 September 2010 which had been well attended and proved to be extremely beneficial.

13.3 The Annual Meeting had been held on 2 November 2010, one at Telford and two at Shrewsbury. Approximately 300 people had attended across the three sessions.

13.4 The Pensions Team Leader then highlighted the main points of Lord Hutton's interim report following the review undertaken by the Independent Public Service Pensions Commission.

13.5 The Pensions Team Leader briefly touched on the Public Sector Spending Review and Tax Relief on Pension Contributions. Employee contributions increase of three percentage points would be phased in from April 2012.

13.6 **RESOLVED:** That the report be noted.

14. Corporate Governance

14.1 The Head of Finance (Treasury and Pensions) introduced the report of the Investment Officer – copy attached to the signed Minutes – which informed Members of the Corporate Governance and Socially Responsible investment issues arising in the quarter, 1 July 2010 to 30 September 2010.

14.2 **RESOLVED:** That the report, together with Appendices A and B to the report, (PIRC Quarterly Report and F&C Responsible Engagement Overlay Report) be noted.

15. Securities Lending

15.1 The Committee received the report of the Head of Finance (Treasury and Pensions) – copy attached to the signed Minutes – which informed Members of a proposal to reactivate the Fund's securities lending programme in a risk controlled manner.

15.2 **RESOLVED:** That the Fund reactivates its securities lending programme on the basis that collateral is restricted to AAA OECD Sovereign Debt (the highest rated collateral available).

16. Infrastructure

16.1 The Committee received the report of the Head of Finance (Treasury and Pensions) – copy attached to the signed Minutes – which informed Members that the Fund was now in a position to commence a tender process for the appointment of one or more infrastructure managers. It outlined the work conducted by officers and the tender timescale. It also provided Members with background information on infrastructure investments.

16.2 The Head of Finance (Treasury and Pensions) reported that it was hoped to start the tender process that week.

16.3 **RESOLVED:** That the timetable for the selection of an Infrastructure Manager be noted.

17. Exclusion of the Press and Public

17.1 It was **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 18, 19 and 20 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 them.

18. Minutes (Exempted by category 1)

18.1 **RESOLVED:** that the Exempt Minutes of the meeting held on 30 September 2010 be approved and signed by the Chairman as a correct record.

19. Appeals (Exempted by Categories 2 and 3)

19.1 The Committee received the report of the Exchequer Services Manager.

20. Investment Monitoring (Exempted by Category 3)

20.1 The Committee received the report of the Head of Finance (Treasury and Pensions).

Signed…………………………………………..(Chairman)

Date…………………23 February 2011………………………