



<u>Committee and Date</u>
Pensions Committee
20 June 2011
10am

<u>Item No</u>
5.1
Public

MINUTES OF THE MEETING HELD ON 23 FEBRUARY 2011

10.00 am – 12.20 pm

Responsible Officer Michelle Evans

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

1. Apologies for Absence and Substitutions

1.1 An apology was received from Mrs P Wilson.

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 24 November 2010 be approved and signed by the Chairman as a correct record.

4. Public Questions

4.1 There were no public questions

5. Aberdeen Fund Management Ltd (European Property)

5.1 Ms Natalie Winter-Frost, Mr Richard Gale and Ms Karin Koks gave a presentation on the performance of the European Property portfolio which covered the following areas:

- Overview of Portfolio
- European Prime Market returns
- Conclusion of current market situation
- Shropshire Pension Fund performance and portfolio summary

5.2 Ms Winter-Frost explained that Aberdeen Fund Management Limited had been mandated to look after the Shropshire County Pension Funds' European Property portfolio. Investments had been made in 17 funds and Managers had been selected in various countries and sectors across Europe in order to put together a diversified fund. She informed the Committee that Mr Gale managed the UK Fund of Funds whilst Ms Koks managed the Continental European element.

- 5.3 Turning to European Prime Market Returns, Ms Koks gave a picture of past performance and a glimpse into the future based on in-house forecasting. She explained that in 2007 Continental Europe performed well whilst the UK underperformed, however, 2010 was a good year for the UK and investment here represented a large part of the portfolio (39%). Looking ahead, Germany, France and Nordics were expected to outperform in 2012.
- 5.4 Ms Koks reported that there had been a good rental recovery which was expected to continue with new products in the pipeline which it was felt would support this rental growth. She indicated that performance by country and sector was expected to be above average. In conclusion however Ms Koks reported that economic recovery in the market was patchy.
- 5.5 Moving on to performance of the Pension Fund, the index linked target return was RPI +5%. Ms Koks reported that the fund performed marginally better than competitors. There had been a five percent uplift in performance over quarter four.
- 5.6 Mr Gale updated the Committee in relation to the UK Portfolio and highlighted the key points of the Fund of Funds.
- 5.7 The Fund Managers answered a number of queries raised by both Members and Advisors in relation to forecasting for the next 12 months, appropriateness of the benchmark and parameters to restrict exposure.
- 6. Majedie Asset Management (UK Equities)**
- 6.1 Mr Simon Hazlitt and Mr Rob Harris gave a presentation on the Fund's UK Equities portfolio up to the end of December 2010 which covered the following areas:
- Market Background
 - Performance
 - Macro Background
 - Portfolio Overview
 - Majedie Long Term Approach
- 6.2 Mr Hazlitt reported that performance had been disappointing over the previous year however the macro view was that the portfolio would have produced a higher underperformance had it not been for good stock selection. It was not all bad news however and the average annual return since inception was 10.9%. So the portfolio had been well rewarded for the risks taken in the Equities Market.
- 6.3 Mr Harris drew attention to the performance attribution of the Shropshire County Pension Fund for the 12 months to 31 December 2010 and reported that the portfolio had been strong for the past two years due to a healthy balance sheet and good market share. Turning to performance review, Mr Harris gave a summary of the winners and losers in the portfolio. He explained that the outlook was uncertain but they were confident that the balance sheet was strong enough to survive.
- 6.4 Mr Hazlitt and Mr Harris responded to a number of queries raised in relation to the weighting of smaller companies in the portfolio and the overall risk level.

7. Strategic Fixed Income (Global Bonds)

7.1 Ms Dianne Gibb gave a presentation on the Global Bonds portfolio which covered the following areas:

- Corporate Overview
- Fund Investment Guidelines
- Investment Team / Operations and Compliance Team
- 2010 Attributions
- Outlook and Key Features

7.2 Ms Gibb explained that Strategic Fixed Income were a US based company established in 1991 with a UK subsidiary set up in 2007. Assets under management amounted to approximately \$1.7 billion as at 31 January 2011. Ms Gibb reported that Strategic managed 15 separate global fixed income accounts and one global macro hedge fund. Strategic's mandate was to exceed the benchmark by 1% per annum over and above the Citi World Government Bond Index hedge back into GBP over a rolling three year period net of fees.

7.3 Ms Gibbs gave an overview of the portfolio's general performance throughout 2010. She reported that Strategic were not strong believers in the strength of the economic rebound as they felt it was driven by liquidity and not strong growth. They were concerned whether the market could sustain its strength if liquidity was withdrawn.

7.4 In response to a query, Ms Gibb confirmed that moving to a more absolute benchmark and having greater flexibility within their mandate would help to improve performance.

The Chairman left the meeting at 11.26am to attend a Royal Visit. The Vice-Chairman took the Chair for the remainder of the meeting.

8. AON Hewitt

8.1 Mr David Crum and Mr John Belgrove gave a presentation on the Investment Strategy using an interactive modeller. They demonstrated how the modeller could be used to predict future performance by manipulating different variables. For example it could be used to project future pension cash flows, which could be split by member types eg pensioners, deferrals or active members.

8.2 They explained that the modeller could also be used to look at how a rise in inflation could affect the scheme for example a ½% rise in inflation could have a big impact. Longevity could also be looked at as well as different asset classes which could be plotted, together with the volatility of assets which may affect the deficit.

8.3 Mr Crum and Mr Belgrove answered a number of queries from both Members and Advisors. In response to a query it was confirmed that the modeller could track CPI instead of RPI. It was demonstrated how the impact on liabilities could be looked at one risk at a time. Members could also look at how the fund level had moved between the last two valuations.

8.4 It was felt that not much needed to change going forward as the Fund had an efficient Investment Strategy in place and did not need to look at new asset

classes. It was confirmed that employee contributions would probably increase at the next fund valuation.

8.5 In conclusion, Mr Crum explained that once the information had been loaded into the modeller it could be looked at on a regular basis.

9. Pensions Administration Monitoring

9.1 The Exchequer Services Manager introduced her report – copy attached to the signed Minutes – which provided Members with monitoring information on the performance of and issues affecting the Pensions Administration Team. The Exchequer Services Manager reported that a number of procedures had been outstanding at the end of January 2011 due to the office closure over the Christmas period, adjustments to the work force and an increase in workload.

9.2 The Exchequer Services Manager drew attention to the main points of the report, which included the following:

- The latest newsletter had been produced in conjunction with neighbouring pension funds Worcestershire and Warwickshire which had greatly reduced costs.
- The pension surgeries had proved successful. The majority of issues raised had been in relation to the proposed changes to employees' terms and conditions.
- The Annual Meeting was to be held on Tuesday 8 November 2011.
- Lord Hutton's final report was still awaited probably in March or April 2011.

9.3 Finally, the Exchequer Services Manager informed the Committee that a letter had been sent by the Local Government Employee Group to the Chancellor in relation to employee contributions.

9.4 In response to a query, it was confirmed that the Administration Team was funded by the Pension Fund. The Interim Head of Finance explained that they always tried to ensure that there was a balance between the level of staff required and costs whilst retaining flexibility. Improvements in technology meant that a job could be completed quicker with less people. If workloads become erroneous however more people could be moved in to assist.

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

10. Corporate Governance

10.1 The Committee received the report of the Treasury Manager – copy attached to the signed Minutes – which informed Members of Corporate Governance and socially responsible investment issues arising in quarter one 1 October 2010 to 31 December 2010.

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

11. Pension Fund Treasury Strategy 2011/2012

11.1 The Committee received the report of the Treasury Manager – copy attached to the signed Minutes – which proposed the Pensions Fund Treasury Strategy 2011/2012 for the small cash balances that the Administering Authority maintains to manage the day to day transactions of the Fund.

11.2 In response to a query the Interim Head of Finance explained that the S151 Officer post (Scheme Administrator) had been advertised externally with an appointment due to be made in the next three to four months. He explained that the Treasury Manager had been appointed to act up into the Head of Finance (Treasury and Pensions) post.

11.3 RESOLVED:

- A. That authority be delegated to the Scheme Administrator (Section 151 Officer) to manage the Pension Funds day to day cash balances.
- B. That the Pension Fund Treasury Strategy be approved.
- C. That the Scheme Administrator (Section 151 Officer) be authorised to place deposits in accordance with the Pension Fund's Treasury Strategy.
- D. That authority be delegated to the Scheme Administrator (Section 151 Officer) to add or remove institutions from the approved lending list and amend cash and period limits as necessary in line with the Administering Authority's creditworthiness policy.

12. Pension Fund Opinion Plan

12.1 The Committee received the report of the Audit Commission – copy attached to the signed Minutes – which set out the audit work proposed to be undertaken for the audit of the pension fund financial statements for 2010/11.

12.2 The Audit Manager explained that the Opinion Plan informed the Committee of the approach to be taken by the Audit Commission in issuing its opinion. He reported that there had been no change in the fee quoted in the Audit Commission fee letter dated 14 June 2010 of £39,625.

12.3 The Audit Manager drew attention to the additional risks which had to be addressed by the auditors.

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

13. Schedule of meetings 2011/12

13.1 The Committee received the report of the Treasury Manager – copy attached to the signed Minutes – which set out a schedule of the meetings of the Committee and outside bodies on which the Committee was represented. It also identified which managers and advisers would be attending respective meetings.

13.2 The Treasury Manager drew attention to the extra Committee Meeting which had been scheduled for 6 April 2011 in order to appoint an Infrastructure Manager. He explained that he and the Interim Head of Finance would be conducting interviews in March.

13.3 RESOLVED:

- A. That the schedule of Committee meetings, including the Annual Meeting be agreed.
- B. That representation at other conferences and training events be agreed.

14. Exclusion of the Press and Public

14.1 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 15 and 16 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.

15. Minutes (Exempted by categories 2 and 3)

15.1 **RESOLVED:** that the Exempt Minutes of the meeting held on 24 November 2010 be approved and signed by the Chairman as a correct record.

16. Investment Monitoring (Exempted by Category 3)

16.1 The Committee received the report of the Treasury Manager.

Signed.....(Chairman)

Date.....20 June 2011.....