



<u>Committee and Date</u>
Pensions Committee
15 September 2011
10am

<u>Item No</u>
3
Public

MINUTES OF THE MEETING HELD ON 20 JUNE 2011

10.00 am – 12.35 pm

Responsible Officer Michelle Evans

Email: michelle.evans.lads@shropshire.gov.uk Telephone: 01743 252727

Present: Mr T H Biggins, Mrs A Chebsey, Mr A Davies and Mr M G Pate.

1. Election of Chairman

1.1 It was proposed, seconded and

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

2. Apologies for Absence and Substitutions

2.1 An apology was received from Mr J Fox (Employee Representative, Shropshire Council)

3. Appointment of Vice-Chairman

3.1 It was proposed, seconded and

RESOLVED: To defer the appointment of Vice-Chairman to the next meeting when representatives from Telford & Wrekin Council would be present.

4. Declarations of Interest

4.1 No declarations of interest were made.

5. Minutes

5.1 **RESOLVED:** that the non-exempt minutes of the meetings held on 23 February 2011 and 6 April 2011 be approved and signed by the Chairman as a correct record.

6. Public Questions

6.1 There were no public questions

7. PIRC (Corporate Governance)

7.1 Mr Alan MacDougall and Ms Janice Hayward gave a presentation on corporate governance in 2011 and which covered the following areas:

- Market Developments and recent policy initiatives
- Board Battles
- Audit and accounting
- Remuneration
- Ownership and stewardship

7.2 PIRC felt that the final recommendation of the Davies Review, that Board's should extend their female representation, should be welcomed. It was reported that the Government's response to the consultation on short-termism in markets was expected to be announced at the end of the month. It was hoped that the FRC's report on board effectiveness and behaviours would be incorporated into the 2012 Guidelines. It was confirmed that the Government's response to the recommendations of the House of Lord's Economic Affairs Committee on the role of auditors had been published on the Lord's website.

7.3 PIRC reported that the House of Lord's had criticised the International Financial Reporting Standards (IFRS) as it was felt that they failed to identify financial problems within a company's accounts. The Government were looking to review the Standards as it had not been convinced that this was the best way forward.

7.4 Turning to ownership and stewardship, PIRC reported that the average holding for the largest shareholders remained constant however the range of largest shareholders with a 50%+ shareholding had doubled whilst the proportion where the largest shareholder owned less than 5% had halved. The growth of the extractive industry and the financial crisis had obviously had an impact on this.

7.5 PIRC reported that they would initiate a study in relation to listing in order to get a more evidence based view and would make the results available to the Committee.

7.6 In response to a query, Mr MacDougall confirmed that there was anecdotal evidence that borrowing to influence voting did occur however it was difficult to get any detail as it was unregulated and more transparency was required.

7.7 In response to a query in relation to companies not showing bonuses in their profit and loss accounts, Mr MacDougall agreed to let Members have sight of a letter that PIRC had written to the FRRP raising its concerns.

7.8 More specific information was requested on how these issues impacted on Shropshire County Pension Fund.

8. Goldman Sachs Asset Management (US Equities)

8.1 Ms Gillian Evans and Mr Gary Chropuvka gave a presentation on US Equities which covered the following areas:

- Shropshire County Pension Fund Mandate
- Portfolio review
- Investment team and research update

- 8.2 Ms Evans reported that Goldman Sachs were encouraged by recent performance although they appreciated there was still a long way to go. She explained that Goldman Sachs managed fixed income and equities for 30 local authority pension funds. Goldman Sachs managed £100m of investment for the Shropshire County Pension Fund using a quantitative strategy with annual tracking of 2% with a mandate to outperform the index by 0.75% per annum net of fees over a rolling three year period.
- 8.3 Mr Chropuvka informed the Committee that there had been a lot of turnaround in performance following some good investments and Goldman Sachs were well positioned to forecast returns. He reported that since inception performance had been positive although net access returns had been slightly negative. Quarter one had shown a significant turnaround in net access returns of 115 percentage points.
- 8.4 The Chairman queried whether this had been due to a change in investment policy. In response, Ms Evans explained that their ethos had remained the same but that they had tried to enhance the process as the markets changed. They had to be flexible and be aware of what would add value and it was hoped to start seeing the results of this. Mr Chropuvka gave an example of how they used statistics and other information in order to evaluate where and with whom it wished to do business. They looked for information which could distinguish companies from their peers.
- 8.5 Mr Chropuvka drew Members' attention to their six investment themes. They felt that markets tended to underappreciate this information which Goldman Sachs used to try to evaluate what Managers were doing. Few of these signals had been rewarded at quarter four in 2010 however four had done reasonably well at quarter one in 2011. Mr Chropuvka went on to explain how Goldman Sachs generated returns by picking better stocks within a sector than its industry peers.
- 8.6 Ms Gillian Evans and Mr Gary Chropuvka answered a number of queries from both Members and Advisors in relation to its quantitative strategy, whether it preferred to operate in markets with high or low efficiency and whether it was more challenging investing in US Corporations than other markets.
- 8.7 Following the recent senior manager turnover within Goldman Sachs, Ms Evans informed the Committee of its succession plans for both the Head of Strategy and the Head of Group. Ms Evans highlighted the importance of the investment team as a whole.
- 8.8 In response to a query, Ms Evans explained that the net return figures were net of base fees but not performance fees.

9. MFS Investment Management (Global Equities)

- 9.1 Mr Matt Hensher and Mr Ben Kottler gave a presentation on global equities which covered the following areas:
- Corporate organisation
 - Executive Summary
 - Performance
 - Mandate and strategy overview
 - Attribution

- Portfolio positioning
- 9.2 Mr Hensher gave the Committee a brief overview of performance over the previous 18 months. He stated that MFS Investment Management had 1600 employees with a global Investment team of 200. He reported that as at year to date, the portfolio was slightly behind its benchmark at 2% up. He reminded the Committee to take a long term view as figures could skew in the short term. Mr Hensher reported that the value of the fund had increased from £85m at inception to £100m as at the end of March 2011.
- 9.3 In response to a query, Mr Hensher confirmed that the figures were net of fees and stood at 6.7% up to the end of March 2011 against a benchmark of 7.4%.
- 9.4 Mr Kottler drew Members' attention to the characteristics that distinguished MFS from other global equity managers. The structure of MFS supported long term investments and availed them of the opportunity to buy in high quality companies. Its approach led to a very low turnover in client accounts. Mr Kottler then turned to MFS' investment approach and performance.
- 9.5 In response to a query in respect of the circumstances which would lead MFS to change their thesis and withdraw from certain markets/stocks, Mr Kottler explained that if companies were no longer high growth or high profit they would withdraw from them. He reported that a number of luxury goods had performed well since inception and MFS felt this was due to a return of consumer confidence which would lead to very strong brands garnering high returns.
- 9.6 Looking at performance drivers by sector, the portfolio was underweight in the energy sectors as it was felt that these sectors were no longer able to make the types of returns that they had done in previous decades so they were less attractive, however this may change following the recent nuclear disaster in Japan.
- 9.7 Mr Kottler highlighted the top 10 portfolio holdings, which were spread across a range of countries and sectors, together with sector weights and the biggest changes in security weights. He informed the Committee that returns on utilities were capped.
- 9.8 In response to a query Mr Kottler explained that emerging markets were still volatile with very little opportunities to invest in utilities, energy or finance. Also, the corporate governance within emerging markets was considered to be poor.
- 9.9 In response to a query, Mr Kottler explained MFS' succession plans following the retirement of its Chairman.

10. F & C Management Limited (Reo) (Responsible Engagement)

- 10.1 Mr Ian Biscoe and Ms Sandra Carlisle gave a presentation which covered the following areas:
- Engagement – what it is and why do it
 - Milestones – tracking progress and delivering success
 - Stewardship Code and new developments
 - Overview of oil and gas engagement

- 10.2 Mr Biscoe reminded the Committee what engagement was and why it was done ie how being responsible stewards made a difference to the bottom line. Specific examples of how this applied to the Shropshire County Pension Fund were requested. Ms Carlisle drew Members' attention to the principles of the UK Stewardship Code. She reported that 45 asset managers had signed up to the Code and gave examples.
- 10.3 In response to a query in relation to possible conflicts with PIRC, Ms Carlisle explained that in terms of voting their policies could differ and if that was the case F&C would look to understand why. So far there had not been any occasions when this had occurred as it was a fairly small industry and if any controversial issues arose these would be widely discussed.
- 10.4 Ms Carlisle demonstrated the way in which engagement worked using Shell Oil as an example. Following a site visit improved monitoring and consultation had been advocated by F&C leading to Shell doing more to mitigate risks and environmental impacts.
- 10.5 In response to a query Ms Carlisle reported on the work undertaken by F&C since April 2010 to protect the value of Shropshire County Pensions Funds' portfolio. She also drew attention to the impact on investor value of changes in company policy, practice or performance following engagement.
- 10.6 The Interim Treasury and Pension Fund Manager agreed to let the Chairman know the cost to the Pension Fund of employing F&C and PIRC as it was felt that there was an overlap in the services provided.

11. Pensions Administration Monitoring

- 11.1 The Committee received the report of the Exchequer Services Manager – copy attached to the signed Minutes – which provided Members with monitoring information on the performance of and issues affecting the Pensions Administration Team.
- 11.2 The Exchequer Services Manager explained that the team had been downsized by the loss of two posts however it was hoped to fill a vacant Pensions Assistant post shortly. She reported that the team were continuing to work jointly with neighbouring Pension Funds in order to reduce the cost of communication materials.
- 11.3 **RESOLVED:** To accept the position as set out in the report of the Exchequer Services Manager.

12. Corporate Governance Monitoring

- 12.1 The Committee received the report of the Interim Treasury and Pension Fund Manager – copy attached to the signed Minutes – which informed Members of the Corporate Governance and socially responsible investment issues arising in quarter 1 January 2011 to 31 March 2011.
- 12.2 The Interim Treasury and Pension Fund Manager informed the Committee that the fund actively voted at Annual General Meetings and Extraordinary General Meetings of the companies in which it invests, with advice from Pensions Investment Research Consultants Ltd (PIRC).

12.3 The Interim Treasury and Pension Fund Manager reported that F&C continued to engage with companies on behalf of the fund in order to address its social responsibility.

12.4 **RESOLVED:** To accept the position as set out in the report of the Interim Treasury and Pension Fund Manager, the PIRC Quarterly Report (Appendix A) and the F&C Responsible Engagement Overlay Viewpoint Report (Appendix B).

13. **Communications Policy Statement**

13.1 The Committee received the report of the Interim Treasury and Pension Fund Manager – copy attached to the signed Minutes – which provided Members with an update to the Communications Policy Statement that the Fund was required to publish under Local Government Pensions Scheme Regulations. It outlined the communication channels that were used by the Fund to communicate with its stakeholders.

13.2 The Interim Treasury and pension Fund Manager explained that the Communications Policy Statement had been updated to incorporate changes made to the communication techniques used by the Fund, including being part of a Shared Services Group with neighbouring Local Government Pension Fund Authorities in order to share the costs of some elements of communication.

13.3 **RESOLVED:** To approve the revised Communications Policy Statement as set out in Appendix A to the report of the Interim Treasury and Pension Fund Manager.

14. **Statement of Investment Principles**

14.1 The Committee received the report of the Interim Treasury and Pension Fund Manager – copy attached to the signed Minutes – which provided Members with an update to the Pension Fund's Statement of Investment Principles (SIP) to reflect changes to the Fund's investment management arrangements and the Fund's compliance with the Myners Principles.

14.2 The Interim Treasury and Pension Fund Manager explained that the SIP set out the Funds' approach to managing risk and was revised each year to reflect any changes. He reported that the SIP had been updated to include the appointments of Aon Hewitt as advisors and Global Infrastructure Partners as Infrastructure Manager.

14.3 The Interim Treasury and Pension Fund Manager reported 100% compliance with the six Myners Principles, as set out in Appendix B to his report.

14.4 **RESOLVED:** To approve the revised Statement of Investment Principles as set out in Appendix A to the report of the Interim Treasury and Pension Fund Manager.

15. **Governance Compliance Statement**

15.1 The Committee received the report of the Interim Treasury and Pension Fund Manager – copy attached to the signed Minutes – which outlined the requirements to produce a Governance Compliance Statement in line with

best practice principles published by the Department for Communities and Local Government.

15.2 The Interim Treasury and Pension Fund Manager explained that the Governance Compliance Statement set out delegation arrangements, the responsibilities of the Committee and compliance against best practice principles. He confirmed that following approval, this document would be published on the website.

15.3 **RESOLVED:** To approve the revised Governance Compliance Statement as set out in Appendix A to the report of the Interim Treasury and Pension Fund Manager.

16. Exclusion of the Press and Public

16.1 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 17 and 18 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.

17. Minutes (Exempted by category 3)

17.1 **RESOLVED:** that the Exempt Minutes of the meetings held on 23 February 2011 and 6 April 2011 be approved and signed by the Chairman as a correct record.

18. Investment Monitoring (Exempted by Category 3)

18.1 The Committee received the report of the Interim Treasury and Pension Fund Manager.

The Chairman reminded Members of the Annual Training Day on Tuesday 5 July 2011 at The Albright Hussey, near Shrewsbury.

Signed.....(Chairman)

Date.....15 September 2011.....