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| <u>Committee and Date</u> |
| Pensions Committee |
| 23 November 2011 |
| 10am |

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| <u>Item No</u> |
| 3 |
| Public |

MINUTES OF THE MEETING HELD ON 15 SEPTEMBER 2011

10.00 am – 12.45 pm

Responsible Officer Michelle Evans

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Present: Mr T H Biggins, Mrs A Chebsey, Mr A Davies, Mr J Fox, Mr W McClements, Mr M G Pate, Mr R Pugh, Mr M Smith and Mr C Tranter.

1. Appointment of Vice-Chairman

1.1 It was proposed, seconded and

RESOLVED: That Mr Malcolm Smith be elected Vice-Chairman for the ensuing year.

2. Apologies for Absence and Substitutions

2.1 No apologies were received.

3. Declarations of Interest

3.1 No declarations of interest were made.

4. Minutes

4.1 **RESOLVED:** that the non-exempt minutes of the meeting held on 20 June 2011 be approved and signed by the Chairman as a correct record.

5. Public Questions

5.1 There were no public questions.

6. F & C Management Limited (Emerging Market Equities)

6.1 Mr Chowdhry and Mr Mahtani from F & C gave a presentation (copy attached to the signed Minutes) on Emerging Market Equities which covered the following areas:

- Portfolio performance
- Background to current portfolio/outlook
- Portfolio activity over period
- Asset allocation and Portfolio Profile
- Business Update

- 6.2 F & C's performance mandate was to outperform the total return of the MSCI Emerging Markets Index (in Sterling) over rolling 3 year periods. The valuation of the fund as at 30 June 2011 was £52.73m. The overall fund return to 30 June 2011 was 17.6%.
- 6.3 Mr Chowdhry drew Members' attention to the inflows and outflows within the portfolio during the year. Portfolio performance had been below benchmark the previous year. Mr Chowdhry highlighted those strategies that had been successful and those which had not.
- 6.4 Mr Chowdhry informed the Committee that the portfolio had underperformed in the last few months due to concerns about the health of the European banking system. Emerging markets were expected to recover as they were the first to rally when things began to stabilise following the financial crisis in 2008.
- 6.5 Mr Chowdhry explained that although the issues were not the same as in 2008, he expected that there would be a solution to the Eurozone crisis before the end of the year. There was too much at stake not to resolve the issue.
- 6.6 Mr Mahtani stated that there was a lot of value in emerging markets and he felt they would deliver returns of up to 10-15% over the next 12 months. Mr Mahtani felt that recovery would be led by domestic demand in China, India and Brazil. F & C had recently moved from underweight to overweight positions in China & India and increased their overweight position in Brazil.
- 6.7 Mr Mahtani drew attention to the three main business changes, the appointment of a new non-executive Chairman, the integration of Thames River Capital and the outsourcing of back office functions. In response to concern that staff who had supported the previous Board would leave the company it was confirmed that it was very much business as usual and that no one had left since Mr Bramson's appointment. Mr Bramson had met a lot of the staff who were very committed.
- 7. PIMCO Europe Limited (Global Aggregate Bonds)**
- 7.1 Mr Edwards and Mr Jaffer gave a presentation (copy attached to the signed Minutes) on Global Aggregate Bonds which covered the following areas:
- Overview of Portfolios
 - Performance Review
 - Outlook and Portfolio Strategy
 - PIMCO update
- 7.2 Mr Edwards drew the Committee's attention to the Portfolio summary. He reported that the Portfolio was actively managed and focussed on the long term (3-5 years). He touched on PIMCO's outlook for the current volatile economic environment of slowing global growth and continued sovereign debt. He confirmed however that returns had been good during the last 12 months and that bonds were a safe source of income which would perform well.
- 7.3 In response to a query in relation to the current economic crisis in Greece, Mr Jaffer felt that Greece would either have to face restructuring or would default on its debt in the near future however he felt this would happen in an orderly manner dependant on policy decisions however he felt this would provide only short term relief.

7.4 Mr Jaffer turned to performance of the three funds. In response to a query he felt that if growth recovered and rates moved higher then Shropshire Pension Fund could invest more in the Absolute Return Fund over the next 3-6 months. Mr Jaffer then drew attention to the portfolio positioning and attribution of the global bond fund together with the sectors that had performed stronger than others.

7.5 Mr Edwards and Mr Jaffer answered a number of queries from both Members and Advisers. Mr Jaffer explained that Government Bonds had performed better due to the downgrade in growth expectations. In response to a query it was felt that their mandate had broad flexibility and had the ability to invest in emerging markets. Although there were risks with emerging markets PIMCO had learnt from the past and had built up reserves to insure against any risks.

8. Martin Currie Investment Management (Pacific Ex Japan Equities)

8.1 Mr Burdon and Mr Graham from Martin Currie gave a presentation (copy attached to the signed Minutes) on Pacific Ex Japan Equities which covered the following areas:

- Corporate update
- Performance Review
- Market outlook and key investment themes
- Portfolio Characteristics

8.2 Mr Burdon drew the Committees' attention to a number of changes within the team and portfolio. Mr Richard Evans had resigned as Investment Director from the Asia investment team due to a career change. His replacement, Mr Paul Danes, had been recruited internally from their Japan Investment team. Given his wider knowledge, this was considered a good fit.

8.3 Mr Burdon reported that the joint venture in China had been terminated in November leading Martin Currie to enter into a new partnership with Singapore company APS, which was a bigger team with better performance. Mr Burdon confirmed that this had had no impact on the Shropshire County Pension Fund.

8.4 Mr Burdon then turned to the performance summary which showed that an improvement in relative performance was now being seen. In response to a query, Mr Graham touched on the previous years' portfolio construction issue. He explained that because the portfolio had been defensive, it had lost out on the economic recovery. The portfolio construction was very different now and it would not be in that situation again.

8.5 Mr Graham discussed the positive and negative contributors. He highlighted a number of these and explained the reasons for their relative performance. He also drew attention to the country and sector attributions for the quarter and for the year.

8.6 To sum up, Mr Graham stated that Asian markets were still cheap and could get cheaper, and were fiscally well positioned to deal with the current economic climate. He felt that Martin Currie were attractively positioned in order to take advantage of a strong recovery.

9. Baillie Gifford & Co (Japanese Equities)

- 9.1 Mr Dickson and Mr Brett from Baillie Gifford gave a presentation (copy attached to the signed Minutes) on Japanese Equities which covered the following areas:
- Overview
 - Fund Performance and valuation
 - Secular growth
 - Portfolio Holdings
- 9.2 Mr Brett reminded the Committee that Baillie Gifford had been appointed in 2006 to manage a specialist Japanese equity portfolio. Their target was to outperform the FTSE World Japan Index by 2% per annum, net of fees, over rolling 3 year periods. They had adopted a fundamental, growth-orientated, long-term, stock-picking approach.
- 9.3 Mr Brett touched on the challenges facing the global economy and financial markets. However, Baillie Gifford continued to focus on the long term prospects of individual holdings which were very encouraging. Mr Brett then turned to the performance and value of the fund, which was 12.6% up against a benchmark of 5.4%.
- 9.4 Mr Dickson reported that the continued strong relative performance over the past 12 months had been driven by good earnings progression in domestic growth companies especially telecom and internet companies. The Portfolio had also benefitted from not owning certain shares, for example, no utilities shares were held as they were not run in shareholders interests so were not attractive investments. The fund had obviously benefitted by not investing in nuclear power.
- 9.5 Mr Brett explained that there were growth opportunities in Japanese listed companies through industrialisation, the scope for increased automation and innovation in new markets. Mr Brett touched briefly on the holdings within the portfolio and reported two broad changes, reducing growth stalwarts and increasing secular growth. In conclusion, it was stated that the market was very low rated which may be helpful for future returns in the long term. It was a very attractive market for their stock driven approach.
- 9.6 In response to a query Mr Brett stated that the biggest emerging theme was mobile internet advances and new business opportunities such as virtual gaming.

10. Audit Commission Annual Governance Report 2010/11

- 10.1 The Committee received the report of the Audit Commission (copy attached to signed Minutes) which summarised the findings from the 2010/11 audit. The District Auditor was proposing to issue an unqualified opinion on the Pension Fund accounts. He confirmed that no material weaknesses had been identified and only minor adjustments were required to the financial statements. The working papers presented for audit were of a high standard.
- 10.2 He drew attention to an unadjusted misstatement which had been identified (set out in Appendix 2) but which officers were not proposing to amend as the differences highlighted in the appendix represented reconciliation differences between the primary source of information (SAMIS) and the secondary source

(AXIS). The financial statements as at 31 March 2011 are produced based on the information held in SAMIS and reflect the true position of the Fund therefore these items will not be corrected.

10.3 The District Auditor took Members through the key audit risks and findings together with the Internal Control issues and findings. The District Auditor answered a number of queries from Members.

10.4 It was requested that the Committee received an update on the Hutton Report at the next meeting. It was confirmed that a presentation on the Public Sector Pension Reform would be made at the annual meeting on 8 November and that an update would be included in the Pensions Administration report at the next meeting.

10.5 **RESOLVED:**

A) That the unadjusted misstatements to the financial statements, set out in the report, be noted.

B) That the letter of representation, set out in appendix 3 of the report, on behalf of the Pension Committee be approved.

C) That the proposed action plan, set out in appendix 4 of the report, be agreed.

11. Pension Fund Annual Audit Fee 2011/12

11.1 The Committee received the report of the Treasury & Pensions Service Manager (copy attached to signed Minutes) which informed Members of the Pension Fund annual audit fee for 2011/12.

11.2 The District Auditor reported that the fees for 2011/12 had been reduced slightly and were based on fees set by the Audit Commission. He confirmed that the Council would have the same audit team next year and he gave a brief update on the future of the Audit Commission.

11.3 **RESOLVED:** That the annual audit fee for 2011/12 be approved.

12. Internal Audit Work for Shropshire County Pension Fund

12.1 The Committee received the report of the Audit Service Manager (copy attached to signed Minutes) which provided Members with details of the work undertaken by Internal Audit for the year ended 31 March 2011.

12.2 The Group Auditor drew attention to the key message set out in paragraph 5.7, that the Audit Service Manager was able to deliver a positive year end opinion on the Council's internal control environment.

12.3 A summary of the level of assurance given for each area reviewed was set out in paragraph 5.11 and Appendix A set out a summary of findings from the Pension Fund Audit Reports 2010/11.

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

13. Pension Fund Annual Accounts 2010/11

- 13.1 The Committee received the report of the Head of Financial Advice (copy attached to signed Minutes) which provided members with the Shropshire County Pension Fund Annual Report 2010/11 and gave an update on the annual audit.
- 13.2 **RESOLVED:** That the Pension Fund Annual Report 2010/11 be approved.

14. Pensions Administration Monitoring

- 14.1 The Committee received the report of the Employment and Pension Service Manager (copy attached to signed Minutes) which provided Members with monitoring information on the performance of and issues affecting the Pensions Administration Team.
- 14.2 The Employment and Pension Service Manager drew attention to the date of the Annual meeting which would take place on 8 November 2011.
- 14.3 **RESOLVED:** To accept the position as set out in the report.

15. Corporate Governance Monitoring

- 15.1 The Committee received the report of the Treasury & Pensions Service Manager (copy attached to signed Minutes) which informed Members of corporate governance and socially responsible issues arising in quarter 1 April 2011 to 30 June 2011.
- 15.2 **RESOLVED:** To accept the position as set out in the report, the PIRC Quarterly Report (Appendix A) and the F&C Responsible Engagement Overlay Viewpoint Report (Appendix B).

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 - 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 them.

17. Minutes (Exempted by category 3)

- 17.1 **RESOLVED:** that the Exempt Minutes of the meeting held on 20 June 2011 be approved and signed by the Chairman as a correct record.

18. Investment Monitoring - Quarter to 30 June 2011 (Exempted by Category 3)

- 18.1 The Committee received the exempt report of the Treasury & Pensions Service Manager.

19. Economic Update (Exempted by Category 3)

- 19.1 The Committee received the exempt report of the Treasury & Pensions Service Manager.

NB. The Employment and Pension Service Manager reported that it had been agreed for staff transferring from bereavement services to the funeral service to be offered access to the Pension Fund. This was approved by the Committee.

Signed.....(Chairman)

Date.....23 November 2011.....