



<u>Committee and Date</u>
Pensions Committee
22 February 2012
10am

<u>Item No</u>
3
Public

MINUTES OF THE MEETING HELD ON 23 NOVEMBER 2011

10.15 am – 12.20 pm

Responsible Officer Michelle Evans

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

1. Apologies for Absence and Substitutions

1.1 Apologies were received from Mr W McClements, Mr M Smith and Mr C Tranter.

2. Declarations of Interest

2.1 Mrs A Chebsey declared a personal interest in agenda item 9 (Public Sector Pension Reform) as she paid into a Public Sector Pension Scheme and was a Member of Unite.

3. Minutes

3.1 **RESOLVED:** that the non-exempt minutes of the meeting held on 15 September 2011 be approved and signed by the Chairman as a correct record.

4. Public Questions

4.1 There were no public questions.

5. HarbourVest Partners (U.K.) Limited (Private Equity)

5.1 Mr George Anson and Ms Hannah Tobin gave a presentation (copy attached to the signed Minutes) on Private Equity which covered the following areas:

- HarbourVest Overview
- Shropshire County Pension Fund – Overview of Commitments
- Global Private Equity Market Update
- Prior Programmes and Performance
- Summary

5.2 Mr Anson gave an overview of HarbourVest who were private equity specialists with offices in Boston, Hong Kong, London, Tokyo and most recently in Bogota, Colombia. Mr Anson drew attention to HarbourVests'

Leadership and Committee structure together with its major investors, 70% of which were pension funds. They had a globally diverse customer base in Europe, Asia, Latin America, the US and Canada.

- 5.3 Mr Anson highlighted HarbourVests' integrated approach to investments and the advantages it provided. He explained that all investment decisions were taken by the Managing Directors together in one meeting in order to share knowledge and to ensure that the best decisions were made.
- 5.4 Mr Anson reported that Shropshire County Pension Fund had invested in a Comprehensive Fund of Funds Programme which was now in its tenth year and had seen very strong performance with a rate of return of 17.7% since inception. The Chairman queried when the HIPEP VI would become fully funded. In response, Mr Anson explained that it was still very active and that 60% had been committed. He confirmed that it would not be fully funded for five to six years.
- 5.5 Ms Tobin gave an overview of investments, the bulk of which was committed to Primary Partnerships (75%), with 9% committed to direct investments and 16% to secondary investments, as at 30 June 2011. Investments were evenly diversified in Europe and the US and in Asia and the Rest of the World (eg Latin America and Russia). In response to a query Ms Tobin explained that HarbourVest had invested mainly in developed Asia (Australia, New Zealand, Hong Kong), but had also invested some funds in Japan and more recently in India and China, but less than in developed Asia.
- 5.6 Mr Anson outlined HarbourVest's plans for its new office in Bogota. He explained that Peter Lipson had moved to Bogota a year ago for two years. His mandate was to set up an office and staff it with locals with investment experience who would be inducted in the US. In conclusion, Mr Anson stated that HarbourVest was a very youthful, forward looking organisation that was always evolving.

It was agreed to take agenda item 7 - Man Investments Ltd (Hedge Funds) next.

6. Man Investments Ltd (Hedge Funds)

- 6.1 Mr Paul Dackombe and Mr Jonathan Howard gave a presentation (copy attached to the signed Minutes) on Hedge Funds which covered the following areas:
- General overview of investment process
 - Performance since inception until 30 September 2011
 - Positive and Negative contributors to performance
 - Outlook for the forthcoming year
- 6.2 Mr Dackombe commented that it had been a challenging year with current market conditions making it very difficult to achieve positive investment returns. He reported that longer term performance had also been disappointing.
- 6.3 Mr Howard drew Members' attention to Man's Investment selection and explained the way the portfolio was built using a range of strategies and investments. He went on to discuss a number of these strategies including overlay strategies, which anticipated spikes in volatility and was a clear reason

why Man Investments had been better preserved. Man's thesis was that markets would see more tail like volatility events over the next twelve months.

- 6.4 Concern was raised that the Shropshire County Pension Fund were paying reasonably high fees for Man Investments to not even achieve their cash benchmark. In response, Mr Howard explained that hedge funds aimed to preserve capital when equity markets were very volatile and advised that returns were expected to improve when markets returned to normality.
- 6.5 Mr Dackombe and Mr Howard answered a number of queries from both Members and Advisors. Mr Dackombe explained that the financial crisis in 2008 had created a large drag on long term performance. In response to concerns about performance, Mr Howard explained the strategies they felt would deliver positive returns going forward.
- 6.6 Mr Dackombe reported that Man Investments were performing well compared to their peers and he felt that the fund of hedge funds was a decent product, however, they could design a more tailored portfolio for the Shropshire County Pension Fund if required.
- 6.7 In response to a query about whether any organisational upheaval or staff turnover had impacted on performance, Mr Dackombe reported that there had been a period of some instability following the merger in 2009 but since then it had been fairly stable.

7. Blackrock (Hedge Funds)

- 7.1 Ms Katrina Morrison and Ms Nathalie Esposito gave a presentation (copy attached to the signed Minutes) on Hedge Funds which covered the following areas:
- Overview
 - Disciplines and Strategies
 - Investment Philosophy and process
 - Portfolio Characteristics
 - Performance summary
 - Future outlook
- 7.2 Ms Morrison informed the Committee that Blackrock Alternative Advisors managed almost £12 billion of assets. Their core fund of hedge funds was made up of a number of Local Government and Corporate Pension Schemes, including the Shropshire County Pension Fund. Blackrock had 70 very experienced investment professionals and a broadly diverse client base.
- 7.3 Ms Esposito drew attention to the five main disciplines of the hedge fund universe: Relative value, which exploited the mispricing of related financial instruments, for example, market defragmentation/dislocations; Event driven, which exploited companies subject to corporate events, for example, bankruptcy, merger etc; Fundamental Long/Short, which involved buying and selling stocks and bonds believed to be under or over priced by the market; Direct sourcing, for example, lending to companies; and, Directional trading, which sought to predict long term movements.
- 7.4 Ms Esposito then discussed Blackrock's investment philosophy and its core principles, as follows: understanding the manager's strategy; strong alignment

of incentives between the manager and the investor; exercising independent judgment; and, focussing on strategies that pursue market inefficiencies.

7.5 In response to a query the Committee were informed of the due diligence undertaken by Blackrock to ensure that managers were doing what they said they were doing which included very thorough checks to verify all information both prior to appointment and then annually.

7.6 Ms Esposito reported that the investment objective for the fund was to achieve net returns commensurate with the long run return on equities with half the volatility and low correlation to equity markets. She explained how funds had been allocated across the five disciplines. The fund was very well diversified across all strategies and also geographically.

7.7 Concerns were raised that despite paying reasonably high fees, returns over the last three to five years had been disappointing .

7.8 In response, Ms Esposito explained that by focusing on lower risk investments Blackrock had underperformed when equity markets were up but when the FTSE was down they were able to protect capital. . She felt that the current environment could get worse which would benefit some strategies, for example, bank deleveraging, which would create great opportunities for hedge funds to provide much needed funding.

8. Pensions Administration Monitoring

8.1 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.

8.2 **RESOLVED:** To accept the position as set out in the report.

9. Public Sector Pension Reform

9.1 The Committee received the report of the Employment and Pension Service Manager (copy attached to signed Minutes) which updated Members on the public sector pension reforms, particularly reforms across the Local Government Pension Scheme (LGPS).

9.2 The Employment and Pension Service Manager took Members through the suggested responses to the questions raised in the consultation paper on the proposed short term measures for achieving savings of £900 million including increases to employee contribution rates and changes to scheme accruals.

9.3 The Employment and Pension Service Manager drew attention to the longer term changes proposed from 2015, however no public consultation was yet taking place on these long term changes.

9.4 **RESOLVED:** That a full response to the Government's consultation be prepared by the Scheme Administrator and sent on behalf of the Committee reflecting the suggestions set out in the report.

10. Corporate Governance Monitoring

- 10.1 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 July 2011 to 30 September 2011.
- 10.2 **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).

11. Exclusion of the Press and Public

- 11.1 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 12 - 14 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.

12. Minutes (Exempted by category 3)

- 12.1 **RESOLVED:** that the Exempt Minutes of the meeting held on 15 September 2011 be approved and signed by the Chairman as a correct record.

13. Investment Monitoring - Quarter to 30 September 2011 (Exempted by Category 3)

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

14. New Admission Bodies & Scheme Employers (Exempted by Category 3)

- 14.1 The Committee received the exempt report of the Employment & Pension Service Manager.

Signed.....(Chairman)

Date.....22 February 2012.....