



Committee and Date

Pensions Committee

14 June 2012

10am

Item No

5

Public

MINUTES OF THE MEETING HELD ON 22 FEBRUARY 2012

10.00 am – 12.30 pm

Responsible Officer Michelle Evans

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Present: Mr T H Biggins, Mrs A Chebsey, Mr A Davies, Mr B McClements, Mr M G Pate (Chairman), Mr R Pugh and Mr M Smith.

1. Apologies for Absence and Substitutions

1.1 Apologies were received from Mr J Fox and Mr C Tranter.

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 23 November 2011 be approved and signed by the Chairman as a correct record.

4. Public Questions

4.1 There were no public questions.

5. Majedie Asset Management (UK Equities)

5.1 Mr Simon Hazlitt and Mr Rob Harris gave a presentation on the performance of the UK Equities portfolio (copy attached to the signed Minutes). Mr Hazlitt explained that Majedie sought to gain an investment edge by analysing numbers, trends and people in order to try to catch the 'change points' in the market. They had managed this more often than not and had made decent gains for their clients.

5.2 The market value as at 31 December 2011 stood at £150 million. The fund had maintained twelve months absolute positive returns even when the FTSE All-Share Index had been negative. Their target was to outperform the benchmark by 2% net of fees per annum over a rolling three year period which they were on track to beat and, indeed, the average return each year had been 9.4%.

- 5.3 Mr Harris drew attention to the key points from the last year both positive and negative and looked to the future at lead indicators to gain a view of what companies were saying in a few months time.
- 5.4 Mr Harris explained that the outlook for developed markets was slightly more encouraging whilst emerging markets were under increasing pressure. It was felt that inflation was an increasing driver of economic growth as it relieved pressure on disposable income for consumers.
- 5.5 Mr Harris touched on the themes within the portfolio and the important research undertaken behind the scenes which ensured that decisions were based on sound analysis and the need for innovation.
- 5.6 Mr Hazlitt and Mr Harris answered a number of queries from Members. In response to a query, Mr Hazlitt explained that new technologies were not taking the place of analysts rather that new technology improved people and got more out of them. People were crucial but so also were the tools that allowed more efficiency. He confirmed that Majedie had no plans to increase the size of its analyst team.
- 5.7 Mr Hazlitt explained the rationale behind Majedie's request that it be allowed to invest up to 20% outside the UK in order to obtain better returns for the same or lower risk. In response to a query, it was confirmed that this would not make that much difference to the strategic allocation.
- 6. Aberdeen Fund Management Ltd (European Property)**
- 6.1 Ms Natalia Winter-Frost, Mr Richard Gale and Mr Mark Wilkins gave a presentation on the performance of the European Property portfolio (copy attached to the signed Minutes).
- 6.2 Mr Wilkins informed the Committee that Aberdeen's target was RPI +5% per annum. The 12 month return was -0.8% with 6 funds out of 8 recording positive returns. The return for Quarter 4 was -3.0%; with 4 out of 8 funds recording positive returns. He reported that a redemption notice had been filed on one fund (CG Malls) and it was hoped to recoup money from this fund shortly.
- 6.3 Since 2007 total return for the INREV Europe All Vehicle Value Added Index had depreciated from 100 to 64. The Shropshire County Pension Fund had either stayed level or slightly ahead. Mr Wilkins reviewed performance and stated that the portfolio was well placed for good performance this year. They would actively continue to manage the exit strategy within CG Malls which would reduce risks and would reduce some negative performance over the second half of the year.
- 6.4 Ms Winter-Frost, Mr Gale and Mr Wilkins answered a number of queries from both Members and advisors. In response to a query, Mr Wilkins confirmed that the portfolio did not have any exposure to properties in Greece however the fund managers may have. He would check the position and report back to the Committee.
- 6.5 In response to a query about whether there would be growth in the retail sector, Mr Wilkins explained that they only focussed on particular parts of retail

and so, for example, they avoided the high street but focussed on shopping centres where retail activity was more concentrated.

- 6.6 Looking at performance going forward, Mr Wilkins felt that the German/French and Nordic markets would outperform the rest of the market. All markets had slowed down but recovery was expected in the second half of 2012 when there would be clear buying opportunities.

7. Strategic Fixed Income (Global Bonds)

- 7.1 Ms Diane Gibb gave a presentation on the performance of the Global Bonds portfolio (copy attached to the signed Minutes). Ms Gibbs gave an overview of the portfolio's general performance throughout 2011.

- 7.2 She informed the Committee that the 12 month return had been 7.5% which had outperformed the target by 1.5%. She felt that although there had been a slight upswing, not much had improved underneath and that 2012 would be just as volatile as 2011.

- 7.3 Looking at the US Fed Balance Sheet, Ms Gibbs explained that further expansion was unlikely to be seen but the ECB Balance Sheet had grown rapidly due to another bank providing more liquidity. It was, however, difficult for central banks to keep that type of liquidity. Income and consumption were important drivers for equity and other growth assets.

- 7.4 Unemployment rates had improved slightly over the last two months, and currently stood at 15%. There had also been a decline in the size of the workforce. Disposable income and personal savings had been restrained. Personal income was being supported by a large increase in employment benefits (17/18% of income) however this was unlikely to fuel any healthy equity market growth.

- 7.5 Ms Gibb answered a number of queries from Members. In response to a query about inflation, Ms Gibb did not feel that inflation would be a problem at this stage. She felt that the main problem was constrained income together with unemployment / underemployment. Businesses needed to be incentivised in order to invest in and take on labour.

- 7.6 In response to a query, Ms Gibbs informed the Committee that Strategic had started to attract more assets, including a public pension plan and a sovereign fund, they had also had a number of independent enquiries.

8. MFS Investment Management (Global Equities)

- 8.1 Mr Matt Hensher and Mr Ben Kottler gave a presentation on the performance of the Global Equities portfolio (copy attached to the signed Minutes). Mr Hensher gave an overview of MFS which had a global presence together with a consistent, repeatable investment process and a culture of teamwork and collaboration to ensure client interests came first.

- 8.2 In response to a query, Mr Hensher explained the impact of the McLean Budden purchase. McLean Budden had been integrated into the MFS business in November 2011 and were based in Canada. The purchase had added another office to the company.

- 8.3 Turning to the executive summary, Mr Kottler reported that the portfolio had achieved strong absolute and relative returns in quarter 4. Quarter 3 had however delivered a negative return. Since inception, the portfolio had outperformed the benchmark by 0.6% per year after fees.
- 8.4 Mr Kottler informed the Committee that MFS tried to find better business models which, if successful, would lead to compound growth faster than the market. MFS undertook fundamental analysis of individual companies to find the best businesses with which to trade. These companies were typically global/multi national.
- 8.6 Mr Kottler explained that European risks had been factored into their analysis but their view was that Europe was still strong enough to survive and last year MFS increased it's exposure to companies based in Europe.
- 8.7 In response to a query, Mr Kottler confirmed that MFS had not changed the way it invested. They tried to avoid investments where they could not forecast future risks, for example, they were unlikely to ever own banks, the exception being in emerging markets which were not as competitive and of a higher quality.

9. Strategy Review Update

- 9.1 The Committee received the report of Mr David Crum from AON Hewitt who gave a brief update. He explained that Officers had requested AON Hewitt to undertake a strategic review of the Pension Fund's investment arrangements. The report set out a summary of the Fund's current investment strategies together with thoughts on some relatively modest changes which may make the strategy more efficient.
- 9.2 Mr Crum touched on the modelling work undertaken on the current strategy and on alternative strategies. The alternative strategy favoured by AON Hewitt increased returns whilst maintaining the same level of risk, which would appear to be a more efficient use of the Fund's assets. Mr Crum then drew attention to potential structural changes.
- 9.3 Mr Crum confirmed that he would come back to the Committee in June with proposals for discussion in order to get a view on whether the Committee felt it appropriate to go forward with the proposals. He estimated that it would take between nine and twelve months to implement any changes from the time the decision was taken.
- 9.4 Mr Crum answered a number of queries from Members who expressed their initial thoughts about the proposals. In response to a query Mr Crum explained that reducing the bond allocation slightly had been considered and although this had led to increased returns it had also increased volatility. The Chairman felt it was very important for the Committee to listen to the advice of the experts who would come back to Committee in June and explain the rationale behind any proposed changes.

10. Pension Fund Audit Strategy

- 10.1 The Committee received the report of the District Auditor (copy attached to the signed Minutes) which set out the work for the 2011/12 audit.

10.2 The District Auditor explained that the audit would identify any risks of material misstatement in the accounts together with any significant or specific risks. He confirmed that any issues raised in 2010/11 would be followed up in 2011/12.

10.3 The District Auditor informed the Committee that the fee for the audit had reduced by 2.8% from 2010/11 and he explained that the Audit Commission were outsourcing its in-house practice so there was an assumption that the fees would decrease further for future audits.

10.4 **RESOLVED:** To note the report.

11. Pensions Administration Monitoring

11.1 The Committee received the report of the Employment and Pension Service 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 **RESOLVED:** To accept the position as set out in the report.

12. Public Sector Pension Reform

12.1 The Committee received the report of the Employment and Pension Service Manager (copy attached to the signed Minutes) which updated Members on the Governments acceptance of the LGPS (Local Government Pension Scheme) "Heads of Agreement" reached by the Local Government Association and the Trade Unions on how to take forward the future reform of the LGPS.

12.2 The Employment and Pension Service Manager confirmed that any statutory consultation would be brought to the Committee for consideration.

12.3 **RESOLVED:** To note the report.

13. Corporate Governance Monitoring

13.1 The Committee received the report of the Treasury & Pensions Service Manager (copy attached to the signed Minutes) which informed Members of corporate governance and socially responsible investment issues arising in the quarter to 31 December 2011.

13.2 **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).

14. Pension Fund Treasury Strategy

14.1 The Committee received the report of the Treasury & Pensions Service Manager (copy attached to the signed Minutes) which proposed the Pension Fund Treasury Strategy for 2012/13 for the small cash balances that the Administering Authority maintained to manage the day to day transactions of the Fund.

14.2 **RESOLVED:**

- A. to delegate authority to the Scheme Administrator (Section 151 Officer) to manage the Pension Funds day to day cash balances.
- B. to approve the Pension Fund Treasury Strategy.
- C. to authorise the Scheme Administrator (Section 151 Officer) to place deposits in accordance with the Pension Fund's Treasury Strategy.
- D. to delegate authority 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.

15. Schedule of meetings 2012/13

- 15.1 The Committee received the report of the Treasury & Pensions Service Manager (copy attached to the signed Minutes) which set out a schedule of meetings of the Committee and outside bodies on which the Committee was represented. It also identified those managers and advisers who would be attending other conferences and training events.
- 15.2 Members requested the date of the Training Day in July as soon as possible.
- 15.3 **RESOLVED:**
 - A. to agree the schedule of Committee meetings, including the Annual Meeting.
 - B. to agree representation at other conferences and training events.

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 - 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 meeting held on 23 November 2011 be approved and signed by the Chairman as a correct record.

18. Investment Monitoring - Quarter to 31 December 2011 (Exempted by Category 3)

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

Signed.....(Chairman)

Date.....14 July 2012.....