



Committee and Date

Pensions Committee

22 February 2013

10.00 am

Item No

3

Public

MINUTES OF THE MEETING HELD ON 29 NOVEMBER 2012

10.00am – 12.45pm

Responsible Officer Michelle Dulson

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Present: Mr T H Biggins, Mr A Davies, Mr B McClements, Ms J Messer (Substitute for Mr J Fox), Mrs M Nicholls (Substitute for Mrs A Chebsey), Mr M G Pate, Mr R Pugh, Mr M Smith (Chairman) and Mr C Tranter.

1. Apologies for Absence and Substitutions

1.1 Apologies were received from Mr J Fox and Mrs Anne Chebsey

1.2 Ms J Messer substituted for Mr J Fox and Mrs M Nicholls substituted for Mrs A Chebsey.

2. Disclosable Pecuniary Interests

2.1 Members are reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

3. Minutes

3.1 **RESOLVED:** that the non-exempt minutes of the meeting held on 13 September 2012 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 about Private Equity (copy attached to the signed Minutes). Mr Anson gave an overview of HarbourVest who were an established firm with £33 billion committed to investments. They had an experienced and stable team and had been owner operated for 15 years. HarbourVest was a global business, with 6 offices around the world, the latest, in Beijing, opened two weeks ago. HarbourVest felt that Latin America and the Far East were growth areas.

- 5.2 Mr Anson explained the changes that had been made to the team. He reported that four partners had left over the previous four years but that these had been replaced with five new partners. Also, three members had recently been added to their regulation and compliance team.
- 5.3 Mr Anson drew attention to HarbourVest's major investors, (70% of which were Pension Funds), together with its investment philosophy and historic performance. HarbourVest investments had produced strong private equity returns in part due to its ability to select top quartile managers.
- 5.4 Turning to performance of the Shropshire County Pension Fund, the fund had performed consistently over 10 years and currently had \$91.3 million invested in a managed fund. As profits were realised they were returned to investors and so far \$30.4 million had been distributed with \$83.7 million remaining.
- 5.5 Ms Tobin discussed the funds managed by HarbourVest for the Shropshire County Pension Fund as at 30 June 2012. Cycle one was the most mature and was almost fully funded (92%) with 84% being returned. Cycle two was a developing portfolio with a value of \$76 million and was at 77% funded. It was anticipated that this fund would increase in the next few years as a lot of underlying activity was beginning to increase. It was early days for Cycle three which was only 22% funded.
- 5.6 In conclusion, Mr Anson explained that he did not foresee a lot of change in Global Markets. A lot of major elections had taken place around the world in 2012 but it was felt that there would now be a more stable political environment. More regulation would change the landscape of private equity but HarbourVest were well positioned to respond to those changes.

6. Blackrock (Hedge Funds)

- 6.1 Ms Emily Benson and Ms Nathalie Esposito gave a presentation about Hedge Funds (copy attached to the signed minutes). Ms Benson updated the Committee on the organisation which had £11.6 billion in assets under management and had recently added six more staff to the team, with one of them being based in London.
- 6.2 In response to a query Ms Esposito explained the difference between Blackrock's focused strategies and custom solutions portfolios and reported that demand had grown for their custom solutions. Ms Benson reported that the Fund was valued at \$1.36 billion at the end of the quarter which was slightly down from July.
- 6.3 Ms Esposito reminded Members of 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.

- 6.4 She explained Blackrock's objectives which sought to emphasize idiosyncratic risk, whilst diversifying exposure to secondary risk and reducing exposure to primary market risk. The Portfolio was well diversified with the largest allocation to Long Short Credit. The allocation to Relative Value was slightly down as was Event Driven and Direct Sourcing, except for Real Estate, which took longer to return. There were 40 underlying funds and Ms Esposito drew attention to the two new additions and explained the one redemption. The fund's geographical allocation had not changed much.
- 6.5 Ms Esposito turned to the investment summary for Shropshire County Pension Fund. Blackrock's target was cash plus 5% and they had slightly exceeded their objectives to be up by 4.6% at quarter end. The figures for November were up by 5%. All sub strategies had contributed to performance with Relative Value being the best performing. Multi strategy had also done well and Blackrock were happy to maintain the currently allocation.
- 6.6 In response to a query, Ms Esposito explained Blackrock's process for undertaking due diligence including background checks on all managers which were repeated annually. Similar checks were also done around risk by analysing the position of underlying investments. Ms Esposito explained Blackrock's programme to limit losses in the event of another global financial crisis. Managers were more cautious and had added some hedges to the fund, and although they could not guarantee no losses, they could dampen them down.
- 6.7 In conclusion, Ms Esposito drew attention to the current outlook and opportunities by strategy. She explained that it was felt there would be some very interesting opportunities ahead.

7. Man Investments Ltd (Hedge Funds)

- 7.1 Mr Paul Dackombe gave a presentation about Hedge Funds (copy attached to the signed Minutes).
- 7.2 Mr Dackombe reported that Man Investments Ltd were very aware that they had underperformed. During the previous year they had felt that their strategies would have delivered, but now they felt that the portfolio was too diverse and were no longer convinced that it would deliver. Mr Dackombe explained that they had now structured the Portfolio slightly differently and had reduced their allocation to global macro. One of their managed futures strategies had however done well as had relative value.
- 7.3 Mr Dackcombe felt that the Portfolio was now in a better place, it was more active and managers could be moved on a weekly basis as opposed to monthly or quarterly. Being able to react quickly to the market was very important.
- 7.4 In response to a query about why these changes had not been implemented earlier, Mr Dackcombe explained that he had pointed out last year that he felt the mandate was not right for the Shropshire County Pension Fund and he had hoped to get some direction from the Committee, but with hindsight, he felt he should have just gone ahead and tailored the portfolio more to the Fund's requirements.

8. Pensions Administration Monitoring

- 8.1 The Committee received the report of the 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.
- 8.2 The Pension Service Manager explained that the team had been undertaking additional work to provide large numbers of redundancy quotes.
- 8.3 The Pension Service Manager reported that attendance at the recent Annual Meetings had been down on previous years. The structure and venues of the Annual Meetings would be reviewed to see if any changes were required. Feedback had however been very good.
- 8.4 The Pension Service Manager explained that calls to the Pensions Helpline were now being monitored and she drew attention to the statistics for the last quarter.
- 8.5 **RESOLVED:** To accept the position as set out in the report.

9. Corporate Governance Monitoring

- 9.1 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 30 September 2012.
- 9.2 The Treasury and Pensions Service Manager explained that this would be the last report received from PIRC as their contract had been terminated and would be replaced by Manager Voting Reports.
- 9.3 A brief discussion ensued in relation to whether the Committee should have a policy to not support political donations. It was explained that Fund Managers were asked to vote consistent with industry standard best practice. It was agreed to circulate the individual Fund Managers' policies to Members as an Appendix to the next Corporate Governance report. PIRC would also be asked to provide further background information in relation to the vote in favour of the political donation.
- 9.4 **RESOLVED:** To accept the position as set out in the report, the PIRC Report (Appendix A), Manager Voting Reports (Appendix B) and the F&C Responsible Engagement Overlay Viewpoint Reports (Appendix C).

10. Potential Transfer of Pensions Administration Team

- 10.1 The Committee received the report of the Pension Service Manager (copy attached to the signed Minutes) which updated the Committee on the project being undertaken that is looking at service areas to transfer into ip&e, the wholly owned Public Limited Company set up by the Council, as part of the Council looking to deliver services differently.
- 10.2 The Pension Service Manager explained that a business case was being worked on to transfer the Shared Services team, of which the Pensions Administration Team had been transferred, to ip&e in the summer of 2013

- (delayed from February 2013). The Pensions Committee were being asked whether they agreed with the transfer subject to certain assurances required to ensure the service remained cost effective.
- 10.3 Concerns were raised by the Employees representatives that no consultation had been undertaken with staff or stakeholders about ip&e and what the benefits would be for staff to transfer to ip&e.
- 10.4 It was clarified that the Pensions Committee need only concern itself with whether value for money would be achieved by transferring the administration of the fund into ip&e. A comment was made that the fund had been very well managed to date, so there was some confusion about the reason for the proposed move to ip&e.
- 10.5 It was proposed that certain assurances be sought before a decision was made on transferring this important service so as not to leave employees at a detriment. It was suggested that the decision be deferred until all stakeholders had been fully informed. Assurances were also sought that adequate levels of staffing remained in place.
- 10.6 It was proposed and seconded that the words 'subject to' be included in the recommendation. On being put to the vote, the motion was carried. The Pension Service Manager explained that any strategic contract would include a clause whereby if the service did not perform as well it would revert back to the Council.
- 10.7 **RESOLVED:** To agree to the transfer of the Pensions Administration Team if the Business case recommended that Shared Services be transferred to ip&e, subject to categorical assurances being given by the Council and ip&e, that there would be no detrimental effect on the service provided by the Team to the Fund and its' employers and any savings made on delivery of the Pension Fund Administration would be passed on to the Fund.
- 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 - 15 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 13 September 2012 be approved and signed by the Chairman as a correct record.
- 13. Investment Monitoring - Quarter to 30 September 2012 (Exempted by Category 3)**
- 13.1 The Committee received the exempt report of the Treasury & Pensions Service Manager.

14. Review of Investment Strategy (Exempted by Category 3)

14.1 The Committee received the exempt report of the Treasury & Pensions Service Manager (copy attached to the signed Minutes).

15. Appeals Under the Internal Disputes Resolution Procedure (Exempted by Category 3)

15.1 The Committee received the exempt report of the Pension Service Manager (copy attached to the signed Minutes).

Signed.....(Chairman)

Date.....22 February 2013.....