



Committee and Date

Pensions Committee

18 June 2013

10.00 am

Item No

**5**

Public

## MINUTES OF THE MEETING HELD ON 22 FEBRUARY 2013

10.00am – 12.30pm

**Responsible Officer** Michelle Dulson

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**Present:** Mr T H Biggins, Mrs A Chebsey, Mr B McClements, Mr M G Pate, Mrs J Smith (Substitute for Ron Pugh) and Mr C Tranter.

In the absence of the Chairman, Mr M G Pate chaired the meeting.

### 1. Apologies for Absence and Substitutions

1.1 Apologies were received from Mr A Davies, Mr J Fox, Mr R Pugh and Mr M Smith.

1.2 Mrs J Smith substituted for Mr R Pugh.

### 2. Disclosable Pecuniary Interests

2.1 Members were 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 29 November 2012 be approved and signed by the Chairman as a correct record.

3.2 In response to a query about the assurances being sought by the Committee at its previous meeting in relation to the potential transfer of the Pensions Administration Team, the Pension Service Manager confirmed that a report would be presented to the next meeting of the Committee on 18 June 2013.

### 4. Public Questions

4.1 There were no public questions.

### 5. Majedie Asset Management (UK Equities)

5.1 Ms Rhiannon Mercer and Mr Rob Harris gave a presentation on the performance of the UK Equities portfolio (copy attached to the signed Minutes).

- 5.2 Ms Mercer explained that Majedie were very clear about their goal and had a track record of outperformance since inception by ensuring the right building blocks were in place to make money over the long term. They were committed to staying small which they felt was an advantage in the market. Majedie had been closed to new investments since 2006, it had a stable team with a culture of co-investment.
- 5.3 In response to a query, Ms Mercer informed the Committee that Majedie had launched an income fund the previous month and a hedge fund in 2007. Mr Harris stated that they had held some global equities briefly, but that they had no immediate plans to launch any other funds.
- 5.4 Mr Harris reported that Majedie's target was to outperform the benchmark by 2% net of fees per annum over a rolling three years. They did not chase quarterly performance but aimed to beat the index over a calendar year. Their turnover was slight lower than the industry average as they sought gradual returns and protected the downside risks. Their approach best suited three to five year mandates.
- 5.5 Turning to performance, Mr Harris informed the Committee that in the 12 months to 31 December 2012 Majedie had outperformed by 4.5%, net of fees, and 3.9% since inception. Ms Mercer and Mr Harris answered a number of queries from both Members and Advisers.
- 6. Aberdeen Fund Management Ltd (European Property)**
- 6.1 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 to match the benchmark of RPI +5. He reported that there had been big drops in performance in 2007 and 2009 and also in the last quarter (to 31 December 2012). Return in quarter four had been -7.7% and the 12 month return had been -8.8%.
- 6.3 Mr Wilkins explained that during quarter four Aberdeen had written its investment in CG Malls Europe down to zero from a value of almost £3 million as a result of the possibility of the fund entering liquidation because it could not meet outstanding redemption requests.
- 6.4 Mr Wilkins explained that Aberdeen had proposed altering the fund structure to a closed ended fund in order to remove the threat of redemption and the need for the fund to file for liquidation. It was hoped that this would allow refinancing to take place and to provide the fund with breathing space to stabilise the fund ahead of an orderly sale of assets in 2 to 3 years.
- 6.5 In response to a query, it was reported that Dutch investors had been a blocking vote over the last 6 months and had vetoed every potential solution. However, voting rights had been reduced to 75% and Aberdeen had got the support of the majority of shareholders which would allow them to push through the solution.
- 6.6 In response to a query about what had gone wrong with CG Malls, Mr Wilkins explained that rents were linked to turnover of the units, which had come down and had reduced rents by 10%. This was a common arrangement within

Continental Europe. Aberdeen had wanted to get out in 2011 but because it was an open ended fund it was felt that they could file for redemption but as there was no equity it was difficult to exit.

- 6.7 In response to a query Mr Wilkins informed the Committee that CBRE Italian Retail Fund would also struggle with valuation and refinancing risks but not to the same magnitude as CG Malls. Mr Gale and Mr Wilkins answered a number of queries from both Members and Advisers. In response to a query about whether there was any merit in making a bid for CG Malls, Mr Wilkins stated that the Bank was the largest creditor and although the asset was currently valued at £470 million it had £400 million of debt.

## **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). She gave an overview of the portfolio's performance for the previous 12 months and since inception. Ms Gibbs reported that the portfolio had underperformed by 63 basis points. She went on to explain some of the issues surrounding their underperformance including political problems in Greece and Germany and the deteriorating economic performance of developed markets.

- 7.2 Ms Gibbs discussed the outlook for 2013 and the backdrop to the global economic outlook. She answered a number of queries from both Members and Advisors.

- 7.3 In response to a query about the attributors to underperformance, Ms Gibbs stated that there had been problems in duration bonds and the foreign exchange, with the Euro and Sterling, not doing so well. The portfolio had a bad first quarter, and during the year as a whole Strategic were more inclined to be overweight to duration bonds. They were cautious about investing in peripheral European markets as they did not believe there would be any growth or structural improvement. They had trimmed duration bonds back in Quarter 4.

- 7.4 In response to a query about the prospect of global inflation, Ms Gibbs explained that it depended where you were, for example, Japan were actively seeking inflation in their economy whereas in the UK it was a very different experience with the Bank of England trying its best to get inflation under control.

## **8. MFS Investment Management (Global Equities)**

- 8.1 Mr Matt Hensher and Ms Victoria Higley gave a presentation on the performance of the Global Equities portfolio (copy attached to the signed Minutes).

- 8.2 Mr Hensher gave Members an overview of MFS. He reported that nothing had changed in their investment process. MFS Global Concentrated Equity strategy had been closed to new business since 31 December 2012. He reported that they had added to their investment team and had new analysts but the same Portfolio Managers. They had recently opened new offices in Brazil and Hong Kong.

- 8.3 Turning to the Executive summary, Mr Hensher informed the Committee of performance for the year to 31 December 2012. MFS' target was to outperform the benchmark (MSCI World Index) by 1% per annum over rolling three years (net of fees). They had outperformed the benchmark in quarter 4 by 3.4% and by 9.6% since inception. The portfolio had increased in value from £96 million up to £114 million since 31 December 2011. Three years ago it had been valued at £85 million so was generating good returns.
- 8.4 Ms Higley informed the Committee of MFS' investment approach which was to select reasonably priced companies with sustainable, above-average growth and returns which would outperform over the long run. In response to a query Ms Higley explained the rationale for being overweight in Europe and underweight in the US. She stated that where a company was domiciled did not really influence their stock selection as they were more interested in looking at where profits were derived from.
- 8.5 It was requested that future presentations provide a breakdown of where sales/revenues were generated as additional information in order for the Committee to identify where any underlying local risk exposure lay. Ms Higley reported that they had already done that analysis and looked at the risk levels when assessing companies. She did not think that there was undue risk in the portfolio.
- 8.6 Mr Hensher and Ms Higley answered a number of queries from both Members and Advisers and in conclusion, Ms Higley explained that MFS were happy with what they were delivering in the fund and hoped it would continue.

## **9. Schedule of Committee and Other Meetings 2013/14**

- 9.1 The Committee received the report of the Treasury and 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 which managers and advisers would be attending the respective meetings.
- 9.2 **RESOLVED:** to agree the schedule of Committee meetings, including the Annual meeting and to agree representation at other conferences and training events.

## **10. Pension Fund Treasury Strategy 2013/14**

- 10.1 The Committee received the report of the Treasury and Pensions Service Manager (copy attached to the signed Minutes) which proposed the Pension Fund Treasury Strategy for 2013/14 for the small cash balances that the Administrating Authority maintained to manage the day to day transactions of the Fund.
- 10.2 **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.

## **11. Corporate Governance Monitoring**

- 11.1 The Committee received the report of the Treasury and 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 2012.
- 11.2 The report updated Members in relation to political donations and included Managers Corporate Governance policies at Appendix B, which had been requested at the previous meeting.
- 11.3 **RESOLVED:** To accept the position as set out in the report, Manager Voting Rights (Appendix A), Corporate Governance Policies (Appendix B) and F&C Responsible Engagement Overlay Viewpoint Reports (Appendix C).

## **12. Pensions Administration Monitoring**

- 12.1 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.
- 12.2 The Pension Service Manager drew attention to the team's increasing workload and she reported that although not all targets had been hit, they were ensuring that retirement quote targets were met. The level of outstanding work was being monitored and processes were being put in place to ensure backlogs were cleared in time for this years' valuation.
- 12.3 The Pension Service Manager updated the Committee in relation to the Annual Meeting for 2013 and informed members that last year's Annual meeting had been published on the Council's YouTube site. She updated the Committee on the proposal that Local Government Pension Schemes be closed to Councillors. The Council's response to the Consultation on Local Government Pension Scheme 2014: Draft regulations on membership, contributions and benefits, was attached at Appendix B.
- 12.4 **RESOLVED:** To accept the position as set out in the report.

## **13. Exclusion of the Press and Public**

- 13.1 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 14 - 16 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.

**14. Minutes (Exempted by category 3)**

14.1 **RESOLVED:** that the Exempt Minutes of the meeting held on 29 November 2012 be approved and signed by the Chairman as a correct record.

**15. New Admission Bodies and Scheme Employers**

15.1 The Committee received the exempt report of the Pension Service Manager.

**16. Investment Monitoring - Quarter to 31 December 2012  
(Exempted by Category 3)**

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

Signed.....(Chairman)

Date.....18 June 2013.....