



Pensions Committee

26 June 2015

10.00 am

**MINUTES OF THE PENSIONS COMMITTEE MEETING HELD ON 20 MARCH 2015
10.30 AM - 12.58 PM**

Responsible Officer: Sarah Townsend
Email: sarah.townsend@shropshire.gov.uk Tel: 01743 252803

Present:

Members of the Committee:

Councillors Thomas Biggins, Anne Chebsey, Andrew Davies and Malcolm Pate

Co-Opted Members (Voting):

Malcolm Smith (Chairman)

Bill McClements

Co-Opted Members (Non-Voting):

Jean Smith

50 Apologies for Absence and Substitutions

There were no apologies for absence.

51 Disclosable Pecuniary Interests

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

52 Minutes

RESOLVED:

That the Minutes of the meeting held on 28 November 2014 be approved and signed by the Chairman as a correct record.

53 Public Questions

There were no public questions.

54 Majedie Asset Management (UK Equities)

Mr Simon Hazlitt and Mr Mark Hepburn gave a presentation on the performance of the UK Equities Portfolio.

The inception date of the portfolio was February 2005 and it is benchmarked against the FTSE All-Share Index. The Fund target is to exceed the benchmark by 2% net of fees per annum over rolling three years. In the last twelve months to 31 December 2014, it met its target and since inception, had exceeded its target by 2.1%.

A presentation on the positive and negative contributors to performance over the last twelve months was given. Mr Hazlitt advised that they felt the outlook for Europe was getting better, although they remained cautious on emerging markets. He advised that he would provide Mr Roger Bartley, Independent Advisor to the Committee, with a copy of their key assumptions document, once available, to enable greater understanding of expected returns going forward.

55 MFS Investment Management (Global Equities)

Mr Matt Hensher and Ms Nicole Neubelt gave a presentation on the performance of the Global Equities Portfolio.

The inception date of the portfolio was December 2009 and it is benchmarked against the MSCI World Index. The Fund target is to exceed the benchmark by 1% net of fees per annum over rolling three years. In the last twelve months to 31 December 2014, it had fallen short of its target. In the last three years, it has exceeded its target and since inception, had exceeded its target by 0.8% per annum.

Members were provided with an overview of MFS and it was reported that their business strategy had not changed during the last year. There had also been no internal changes to either their investment team, or investment process during the last year.

Members were also informed that MFS believed that through their exposure to high quality companies, the portfolio remained well positioned to outperform the market through cycles.

56 Aberdeen Fund Management Ltd (Pan European Property)

Mr Mike Dinsdale and Mr Tom Richardson gave a presentation on the performance of the European Property Portfolio.

Members were firstly reminded of the changes which had been made to the portfolio over the last twelve months.

It was reported that there was a continued focus on redeploying capital from Europe to the UK. As a result during 2014, weighting to the UK increased by 17% to 78% and would continue to increase during 2015. The portfolio remains primarily exposed to Offices and Retail assets. Acquisitions during the year had reduced the risk profile of the portfolio which was now exposed to lower levered, better quality properties.

Members were informed of the current situation in respect of CG Malls Europe and finally, it was noted that the priorities in respect of Shropshire's mandate for 2015 were to rationalise the UK element of the portfolio and to continue allocation of remaining capital to the UK.

57 **LDI and Unconstrained Bonds**

The Committee received the report of the Head of Finance, Governance and Assurance (Section 151 Officer) (copy attached to the signed Minutes) which reminded Members that the Committee, together with the Officers and Aon Hewitt had been reviewing the Fund's investment strategy. This included building a greater understanding of the Fund's investment risk relative to its liabilities. A number of potential improvements to the investment strategy had been discussed with the Committee during training sessions prior to Committee meetings and at the annual training day in July. Following a further training session, undertaken directly prior to the Pensions Committee meeting, two recommendations were outlined in the report for implementation.

The Head of Finance, Governance and Assurance (Section 151 Officer) confirmed that following the manager selection process to identify an appropriate LDI Manager and Unconstrained Bond Manager, a further report would be considered by the Pensions Committee outlining the next steps.

RESOLVED:

- (a) That the recommendation in Appendix A to the report to begin the process to put in place a Liability Driven Investment (LDI) Manager which would replace the current index linked gilt holding be approved. The Pensions Committee therefore authorised officers to undertake a manager selection process to identify an appropriate LDI Manager.
- (b) That the recommendation in Appendix A to the report to replace all or part of the investment grade corporate bond allocation with a more unconstrained bond mandate, for example multi asset credit or PIMCO's diversified income Fund be approved. The Pensions Committee therefore authorised officers to undertake a manager selection process to identify an appropriate Unconstrained Bond Manager.

58 **Grant Thornton - Informing The Audit Risk Assessment for Shropshire County Pension Fund 2014-15**

The Committee received the report of the External Auditor, Grant Thornton, (copy attached to the signed Minutes) which detailed responses received from the Council's Management in respect of a series of questions relating to the areas of fraud, laws and regulations, going concern, accounting estimates and related party transactions.

Mr Ashley Wilson, Pensions Audit Manager for Grant Thornton, was in attendance to present the report. He confirmed that he had no concerns with the responses that had been received and that nothing unexpected or unusual had been identified.

RESOLVED:

That the contents of the report by the External Auditor, Grant Thornton, be noted.

59 Grant Thornton - Shropshire County Pension Fund Audit Plan 2014/15

The Committee received the report of the External Auditor, Grant Thornton, (copy attached to the signed Minutes) which set out the Audit Plan for Shropshire County Pension Fund for the year ended 31 March 2015.

Mr Ashley Wilson, Pensions Audit Manager for Grant Thornton, was in attendance to present the report. In particular, Members' attention was drawn to the 'Significant risks identified' section and the comments detailed therein.

It was noted that the fee remained the same as last year and the Committee confirmed that they were happy with the contents of the report.

RESOLVED:

That the contents of the report by the External Auditor, Grant Thornton, be noted.

60 Schedule of Committee and Other Meetings 2015/16

The Committee received the report of the Head of Treasury and Pensions (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.

During the training session which took place prior to the meeting, Members were asked to think about the future structure of Pensions Committee meetings and particularly, how the Committee's time was currently spent during these meetings and whether it was beneficial to spend the majority of the meeting receiving presentations from investment managers. The Head of Treasury and Pensions drew Members' attention to Appendix B of the report which proposed an alternative Committee meeting structure outlining how the Pensions Committee meeting time could be allocated in the future. Following a discussion, Members were in agreement that only one or possibly two Fund managers should be invited to present at future Pensions Committee meetings and that ideally, this would be because the Fund was either underperforming or not meeting the Committee's expectations. Further discussions on the future structure of Committee meetings would be discussed at the Members' training day in July.

RESOLVED:

- (a) That the schedule of Committee meetings for 2015/16, including the Annual Meeting, as set out in the report be agreed with the exception that only one or possibly two Fund managers will be invited to attend future Pensions Committee meetings and not three as was currently indicated in the schedule of Committee meetings in Appendix A.
- (b) That the representation at other conferences and training events as set out in the report be agreed.

- (c) That the alternative Committee meeting structure as set out in Appendix B to the report be approved.

61 Governance Compliance Statement

The Committee received the report of the Head of Finance, Governance and Assurance (copy attached to the signed Minutes) which outlined the requirement to produce and keep updated, a Governance Compliance Statement in line with the best practice principles published by the Communities & Local Government Department and recommended an update of the Governance Compliance Statement that was first published in February 2006 and was last updated and approved by the Committee in June 2014. The Head of Treasury and Pensions informed Members that it had now been updated to include the creation of the local Pension Board which came into affect on 01 April 2015.

RESOLVED:

That the revised Governance Compliance Statement (Appendix A to the report) be approved.

62 Pension Fund Treasury Strategy 2015/16

The Committee received the report of the Head of Treasury and Pensions (copy attached to the signed Minutes) which proposed the Pension Fund Treasury Strategy for 2015/16 for the small cash balances that the Administrating Authority maintained to manage the day to day transactions of the Fund.

RESOLVED:

- (a) That authority be delegated to the Scheme Administrator (Section 151 Officer) to manage the Pension Funds day to day cash balances.
- (b) That the Pension Fund Treasury Strategy be approved.
- (c) That the Scheme Administrator (Section 151 Officer) be authorised to place deposits in accordance with the Pension Fund's Treasury Strategy.
- (d) That the Scheme Administrator (Section 151 Officer) be authorised 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.

63 Corporate Governance Monitoring

The Committee received the report of the Head of Treasury and Pensions (copy attached to the signed Minutes) which informed Members of Corporate Governance and socially responsible investment issues arising in the quarter 01 October 2014 to 31 December 2014.

RESOLVED:

That the position as set out in the report, Manager Voting Reports (Appendix A) and F&C Responsible Engagement Overlay Activity Report (Appendix B) be accepted.

64 Pensions Administration Monitoring

The Committee received the report of the Pension Administration Manager (copy attached to the signed Minutes) which provided Members with monitoring information on the performance of and issues affecting the Pensions Administration Team.

Members' attention was drawn to Section 6 of the report relating to Guaranteed Minimum Pension (GMP) Reconciliation. It was reported that following the end of contracting out in April 2016, HMRC would be sending a statement to all individuals affected stating the amount of GMP they would receive and who was responsible for paying for it. Ahead of this, HMRC was advising that schemes should reconcile the GMP values they hold for members with those calculated by HMRC or face making overpayments to existing members and even individuals for whom they believed they had no liability.

It was noted that the reconciliation of GMP values was not a mandatory regulatory requirement, however, the Fund faced significant risks if it was decided not to reconcile values. Members questioned how much it would cost to undertake the work and the Pension Administration Manager stated that the initial work to understand the situation was approximately £5,000.

Finally, it was confirmed that this year's annual meeting would take place on 12 November 2015 in the Council Chamber, Shirehall.

RESOLVED:

- (a) That the position as set out in the report by the Pension Administration Manager be accepted.
- (b) That a Guaranteed Minimum Pension (GMP) Reconciliation exercise be carried out in line with the recommendations as set out in the report.

65 Exclusion of Press and Public

RESOLVED:

That under paragraph 10.2 of the Council's Access to Information Procedure Rules, the proceedings of the Committee in relation to the following items, be not conducted in public on the grounds that they might involve the likely disclosure of exempt information as defined by the category specified against them.

66 Exempt Minutes (Exempted by Category 3)

RESOLVED:

That the Exempt Minutes of the meeting held on 28 November 2014 be approved and signed by the Chairman as a correct record.

67 New Admission Bodies (Exempted by Category 3)

The Committee received the exempt report of the Pension Administration Manager (copy attached to the Exempt signed Minutes) which provided Members with details regarding an admission under Schedule 2 Part 3 Regulation 1(d)(i) of the Local

Government Pension Scheme Regulations 2013, due to services transferring from a Scheme Employer, under a service contract. The report also provided confirmation of two new Schedule 1 Part 1 Scheme Employer (Academies) joining the Fund.

RESOLVED:

That the recommendation in the exempt report by the Pension Administration Manager be approved.

68 Investment Monitoring - Quarter to 31 December 2014 (Exempted by Category 3)

The Committee received the exempt report of the Head of Treasury and Pensions (copy attached to the Exempt signed Minutes) which provided Members with monitoring information on investment performance and managers for the quarter period to 31 December 2014, and reported on the technical meetings held with managers since the quarter end.

RESOLVED:

That the position as set out in the exempt report by the Head of Treasury and Pensions be noted.

(The full version of Minutes 67 and 68 constitutes exempt information under Category 3 of Paragraph 10.4 of the Council's Access to Information Rules and has accordingly been withheld from publication).

Signed (Chairman)

Date: