

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

TUESDAY, 6TH DECEMBER, 2016

Councillors Present: Councillor Robert Chapman in the Chair
Cllr Kam Adams, Cllr Michael Desmond (Vice-Chair), Cllr Patrick Moule and Cllr Geoff Taylor

Apologies: Councillor Feryal Demirci

Co-Optee Jonathan Malins- Smith

Officers in Attendance: Ian Williams (Group Director of Finance and Corporate Resources), Michael Honeysett (Director of Financial Management), Rachel Cowburn (Project Manager/Accountant).

Also in Attendance: Andrew Johnson }
Geoffrey Nathan } Hymans Robertson

1 APOLOGIES FOR ABSENCE

1.1 Apologies for absence were received from Councillor Demirci

2 DECLARATIONS OF INTEREST - MEMBERS TO DECLARE AS APPROPRIATE

2.1 Councillors Chapman, Desmond and Taylor declared a non-pecuniary interest as deferred members of the LGPS.

3 CONSIDERATION OF THE MINUTES OF THE PREVIOUS MEETING

3.1 **RESOLVED** that the minutes of the previous meeting held on 19th September 2016 were agreed as a correct record subject to the amendment at paragraph 5.5 – to replace the word ‘liabilities’ to ‘assets’.

4 PENSION FUND ACTUARIAL VALUATION 2016 UPDATE AND ASSET LIABILITY MODELLING

4.1 Rachel Cowburn introduced the report providing a summary of the progress on the 2016 Actuarial Valuation. An update from the Fund’s Actuary Hymans Robertson would be provided at the meeting including information on the Asset Liability Modelling exercise currently underway, which would help to determine the Fund’s approach to contribution rate setting over the next 3 years from 1st April 2017.

- 4.2 Geoff Nathan and Andrew Johnston delivered a presentation on the LBH Initial Valuation Results and an outline of the areas covered is set out below:

Assumptions

- 2016 Key assumptions
- Initial draft whole fund valuation results
- Membership data received and validated
- Change in market conditions
- Investment return v expected
- Membership experience
- Why has the funding position changed
- Draft whole fund valuation results- SAB basis

Modelling Results for the Council

- Purpose
- Method
- 5,000 scenarios gives a distribution of outcomes
- Method – Payroll
- Decision making framework
- Current triggers
- Investment Framework
- Full range of Assets
- Method – Investment Strategy
 - Inputs – Three investment strategies
 - Inputs – Two contribution strategies
 - Inputs – The scenarios modelled
- Probability of achieving target in 2034, risk in 2034
- Probability of achieving target in 2031, risk in 2031
- Employer contributions paid over the year to end (Fixed con pattern to 2020 & Higher, current and lower risk investment
- Conclusions

- 4.3 Mr Malins- Smith asked why the funding position had changed, in particular the membership experience over the period and whether this was the result of more people paying into the Fund. Mr Nathan responded that some of the movements during that period could be the result of fewer health retirements which carried additional liabilities, however, an increase in membership could help with cashflow.

- 4.4 Cllr Taylor sought clarification regarding Diversified Credit. Mr Johnston explained that multi-asset credit was an allocation in higher yielding bond markets and could include high yield bonds, asset backed securities and secure loans. These credit investments were attractive because of the potential return and had good returns if defaults could be avoided. These credit investments were relatively new and had previously been available through banks but could now be accessed via a Fund Manager.

- 4.5 The Chair enquired about 14% DGF investment and Mr Johnston confirmed it related to the GMO investment. The Chair asked why the expected returns for UK equities and global equities were the same. Mr Johnston stated that the expected returns were similar but slightly higher volatility had been associated with global equities.

- 4.6 Cllr Desmond sought clarification regarding commercial property investments and how assumptions could be made since the European Referendum. Mr Johnston stated that the commercial sector had been less affected than the residential sector following the European Referendum and that property investments were considered long term investments with the primary aim of delivering yields. The Fund currently had 10% asset allocation in properties and this was a reasonable allocation as the yields for commercial property had remained robust. However, at this stage it would be difficult to predict the outcomes and whether the Brexit would have a positive or negative affect on this sector.
- 4.7 Mr Malins- Smith asked why multi-asset was still being referred to as self-investment grade and secondly how it was in line with the pooling agenda. Mr Johnson clarified that it was a rating agency terminology. In relation to the pooling, there had been many meetings held with the London CIV and it was currently considering its approach to the area of multi-assets. Ms Cowburn added that this was not yet a high priority for the London CIV and that as part of the Fund's investment structure review the Committee would have to consider what CIV was currently available in relation to active equity and what would also be made available this financial year. Ms Cowburn said that the London CIV was aware that it must meet Pensions Funds investment strategy and it necessary for Pension Funds to communicate with them.
- 4.8 Mr Williams advised that a report on contribution rates would be submitted at the forthcoming meeting in January 2016.

RESOLVED that the contents of the report be noted.

5 INVESTMENT STRATEGY DEVELOPMENT

- 5.1 Rachel Cowburn introduced the report in relation to the long term investment strategy to be considered in the light of the actuarial valuation and modelling work undertaken, as well as the introduction of the new Investment Strategy Statement from 1st April 2017.
- 5.2 Responding to Cllr Desmond's question regarding a finalised investment structure taking into account the Council's commitment to ethical investment and reducing fossil fuel investment, Ms Cowburn advised that a draft Investment Strategy Statement would be presented at the meeting in January 2017, which would provide a broad indication of the investment structure and a final strategy would have to be presented at the meeting in March 2017.
- 5.3 Cllr Taylor sought clarification regarding the statutory instrument stating 'the Council's investment strategy may not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority.' Ms Cowburn clarified that this related to infrastructure and social housing and the amount that could be borrowed from the administering authority. Cllr Taylor commented that it should be incorporated within the strategy that the Fund could have latitude to invest up to 5% locally.

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- 5.4 Ms Cowburn advised that the Investment Strategy Statement must incorporate a statement of the Fund's voting policy and that the London CIV was in the process of setting a collective approach to voting. The Chair requested that a report reviewing the Fund's voting policy should be submitted at the next meeting.
- 5.5 The Chair stated that the Committee would be proceeding to a private meeting to consider an exempt appendix to this report and exempt agenda item 6- Procurement of Third Party Pension Administration Services.

RESOLVED that the press and public be excluded from the proceedings of the Pensions Committee meeting during consideration of the appendix at item 5 and item 6 on the agenda on the grounds that it is likely, in the view of the nature of the business to be transacted, that were members of the public to be present, there would be disclosure of exempt information as defined in Schedule 12A to the Local Government Act 1972 as amended.

7 ANY OTHER BUSINESS WHICH IN THE OPINION OF THE CHAIR IS URGENT

- 7.1 Mr Johnston advised that the asset allocations were being monitored including the RBC mandate in the Quarterly Review report, which would be presented in January 2017.

Duration of the meeting: 4.00 - 7.00 pm

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