Agenda Item no. 2a

MINUTES OF THE PENSION COMMITTEE

Date: Thursday 30th July 2015

Time: 12:00 noon – 2.40pm

Place: Kreis Viersen Room, Shire Hall, Cambridge

Board Members present: Councillors P Ashcroft, S Count (Chairman), R Hickford (Vice Chairman), M Leeke, D Seaton and J Wisson; J Walker (representing UNISON retired members)

Officers: D Cave, C Malyon, R Perry, P Tysoe and M Whitby

In attendance: Councillors M McGuire and M Shellens

Apologies: Councillors Fraser and Kavanagh; Matthew Pink and Tim Woods

11. DECLARATIONS OF INTEREST

John Walker declared a personal interest as a retired member of the LGPS and that his son and daughter-in-law were deferred members.

Councillor David Seaton declared an interest as his father was a retired member of scheme.

12. MINUTES OF THE PENSION FUND COMMITTEE 4TH AND 25TH JUNE 2015 AND ACTION LOG

The minutes of the Pension Fund Committee meeting held on 4th and 25th June 2015 were approved as a correct record. The Action Log of the Pension Fund Committee meeting held on 25th June was noted.

Arising from the Action Log, Members noted:

- in relation to the administration cost per member, the DCLG figure quoted by John Walker at the last meeting was different in that it included investment expenses, whereas the Shadow Advisory Board figures excluded investment expenses. Mr Walker advised that he had raised with LGSS Pensions a related issue on whether administrative costs per member were to be included in benchmarking figures in future, because that information was available for many other authorities but not Cambridgeshire. To date, LGSS Pensions had not provided that information. Paul

Tysoe explained that the benchmarking process was being done at the moment, and that this had changed from last year. That benchmarking information should be available at the October meeting;

- individual member training data was being compiled and would be available at the next meeting. A schedule of joint training events was being planned with Hymans for both Pension Fund Committee and Local Pension Board members. Members asked that potential dates be circulated as soon as possible, because their diaries filled up quickly;
- a report on cessation payments would be presented to the next meeting;
- the 2013-14 CIPFA Benchmarking results had already been circulated;
- the funding level had been discussed at the risk management SMT group, and included in the County Council's Risk Register.

It was resolved to:

(1) approve the minutes of the Pension Fund Committee meetings held 4th and 25th June 2015;
(2) note the Action Log of the Pension Fund Committee meeting held 25th June 2015.

13. STATEMENT OF INVESTMENT PRINCIPLES

The Committee received a report on amendments to the Statement of Investment Principles, which included a revised Statement for Members' approval. The main amendments were the inclusion of new Fund Managers, since the document had last been reviewed in February 2015. It was suggested that such changes, i.e. minor administrative/factual updates be approved by the Deputy Head of Pensions in future, with the Committee being notified of the changes made.

Councillor Seaton observed that the document included a section on the "Responsible Investment Policy", with "responsible investment" being defined as the *"integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices"*. He reminded the Committee that he had previously raised this issue, specifically how ESG considerations were taken into account in practice, i.e. how 'ethical' investment was defined, and whether the Fund guided Fund Managers on these issues, or vice versa? Paul Tysoe commented that he believed he had responded to Cllr Seaton by email on this matter, but he would re-send this information to Councillor Seaton and all members of the Committee. **ACTION: Paul Tysoe.** He added that the Fund had taken a light touch approach in this area, especially given resource constraints, with the primary focus for Fund Managers being to maximise performance. On a related issue, Paul advised that every December, LAPF held a conference in Bournemouth where issues such as this were discussed, and that it would be very helpful if some members from this Committee attended that conference, and another conference in Chester in March. It was agreed that that information on these conferences would be circulated to the Committee. **ACTION: Paul Tysoe.** Another Member observed that other reports indicated that the Fund had suffered as a result of investments in Russia, so ethical investment was relevant when considering the performance of the Fund.

Members requested that future documents highlight changes in the actual document word by word, in addition to a summary in the covering report.

It was resolved to:

1. Note the amendments made to the Statement of Investment Principles;
2. Approve the revised Statement of Investment Principles;
3. Approve that the Deputy Head of Pensions may, in future, agrees minor administrative changes to the Statement of Investment Principles changes as and when required, and notify the Committee of the changes made.

14. ANNUAL REPORT AND STATEMENT OF ACCOUNTS

The Committee considered the draft Annual Report and Statement of Accounts (SOA) of the Pension Fund for 2014-15. It was noted that the SOA had already been subject to audit fieldwork by the County Council's external auditor, Price Waterhouse Cooper (PwC). It was noted that the appendices to the Annual Report and SOA had not been included as there were no significant changes.

Members noted:

- that there had been an overall increase in net assets available for benefits of £223M during the year, and £603M over three years;
- the one off payment of £33M upon the transfer of the administration of Probation Service pensions to the Greater Manchester Pension Fund;
- the Fund returned a performance of 12.2% for the year.
- the increase in the number of employers in the Fund mainly resulted from schools converting to Academies;
- the issues and outstanding items of audit fieldwork to be undertaken, and informal feedback from PwC on the audit. The Section 151 Officer advised that PwC were trying to encourage the Fund to increase its valuation of the Cambridge & Counties Bank, but that this did not materially affect the valuation – it was a Balance Sheet issue;
- the private equity valuations would not be available until the end of July.

A Member observed that in the notes to the accounts (p91/item 25 "Related Party Transactions") it was stated that *"Each member of the Pension Fund Committee is required to declare their interests at each meeting"* – it was clarified that County Councillors did not have to make declarations at each meeting, because their interests were available in the publically accessible Register of Members' Interests.

It was resolved to:

1. Approve the draft annual report and note the statement of accounts of the pension fund for the 2014-15 financial year;
2. Approve that the Chairman, agree with officers any immaterial amendments to the Annual Report arising from final External Auditor review comments.

15. WM STATE STREET GLOBAL SERVICES ANNUAL PERFORMANCE REVIEW

The Committee received a presentation from Karen Thrumble of State Street. The following key points were raised in her presentation:

- equity investment, noting that as recently as ten years ago, LGPS Funds' equity holdings were predominantly in UK equities, whereas UK equities now represented only about a third of equities held;
- the Cambridgeshire Fund was very similar in structure to the average Fund, but somewhat heavier in equities (69% compared to a 61% average);
- the differences between active and passive managers, and hybrid approaches (e.g. Smart Beta), noting Cambridgeshire's intention to move to Smart Beta;
- the average Fund performance over the longer term (20 years) was a pleasing 5% per annum above inflation. However, whilst the investment side of pension funds had performed well, the issue was that liabilities were growing more quickly;
- over that 20 year period, there had started to be a big switch from equities into alternatives. Whilst this was partly due to diversification of asset allocation, the move towards Alternatives was also down to the steady stream of cashflow that could be achieved from assets such as infrastructure;
- despite the clear focus on passive investment in the recent government consultation on the future of local government pension funds, there had not been a big move from active to passive equity managers, although it was acknowledged that passive managers had a valuable role to play in fund portfolios. It was suggested that the next government consultation would focus on cost savings rather than a move to passive management. Members observed that the figures indicated that some other funds appeared to have wasted a lot on active management. It was suggested that much depended on the timing of appointment and termination of active equity fund managers, specifically giving managers long enough to perform, against Investment Committees' desire to be seen to be addressing poor performance. Investment Committees should focus on their Fund Managers' people, processes and organisations, and take a long view on investment performance;
- the Fund Structure and benchmarks used e.g. noting Cambridgeshire's benchmark for Alternatives was global equities. The Chairman asked officers to circulate information on the strengths and weaknesses of using different benchmarks i.e. why Cambridgeshire used the benchmarks it did, and what other options were available **ACTION: P Tysoe/R Perry**;
- the performance of the Fund relative to benchmark, and that the biggest drag on performance had been investment selection. There had been massive underperformance from Skagen, the Fund's emerging markets manager, although

Amundi, Newton and Schroders had all outperformed and added value in both the latest year and over the medium term;

- in terms of relative risk and return, compared to peers the Cambridgeshire Fund was average in terms of risk, but had lower than average returns, although it was improving. The Chairman observed that it would be useful to analyse the characteristics of asset allocation of those Funds with lower risk but higher returns. The role of internal management of some of the larger funds was discussed, but it was suggested that the choice of asset classes was what really drove performance in the long term. It was proposed that Funds of a comparable size with good performance needed to be identified, and their asset allocation examined. However, Members noted that much depended on time period, with some Funds performing well recently because of a higher allocation to bonds;
- performance relative to other funds, measured net of fees, which placed Cambridgeshire in the 72nd percentile of the local authority universe. In response to a Member question, it was suggested that Skagen had just had a bad year: when Members had met with Skagen recently, they had been reassured by their strategy and process, accepting that the downturn in performance was partly attributable to their countercyclical approach.

It was resolved to:

> Note the Annual Performance and Benchmarking Review.

16. ACCESS TO CONFIDENTIAL REPORTS AND MEETINGS BY MEMBERS OF THE PENSION FUND BOARD

The Committee received a report regarding access to confidential reports by members of the Pension Fund Board.

It was noted that County Councillors who were members of the Pension Fund Board were already able to access confidential reports and meetings, as they had signed the Council's Code of Conduct. At their first meeting, Scheme Member representatives had also agreed to sign the Code of Conduct, so they would be able to attend confidential meetings of the Pension Fund Committee and Investment Sub-Committee, and receive copies of confidential papers.

Mr Walker commented that it was disappointing that the Pension Fund Board did not yet have a full complement of Members. It was noted that this issues had been discussed at the Pension Fund Board's first meeting, and was being progressed.

It was resolved:

> To note that all members of the Pension Fund Board have agreed to sign up to the Council's Code of Conduct, and would be able to access confidential reports,

and confidential items of both the Pension Fund Committee and the Investment Sub-Committee.

17. EXCLUSION OF PRESS AND PUBLIC

It was resolved that under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business (items 18, 19 and 20) on the grounds that they contain exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended (information which is likely to reveal information relating to the financial or business affairs of any particular person) and that it would not be in the public interest for this information to be disclosed.