

Pensions Panel

30 April 2018 – At a meeting of the Pensions Panel held at 10.00 a.m. at County Hall, Chichester

Mr Bradford
Mr Elkins
Ms Taylor*

Mrs Dennis
Mr Hunt (Chairman)
Mrs Urquhart

Mr Donnelly
Mr Jupp

Apologies for absence were from Dr Walsh.

* Ms Taylor arrived at 10.57 a.m.

In attendance by invitation:

Caroline Burton (Independent Adviser);
Steven Law (Hymans Robertson);
Malcolm Gordon, Jonathan Davies and Scott Wilkin (UBS);
Rob Barr, Alex Scott and Richard Sem (Pantheon)

Officers Present:

Katharine Eberhart,
Director of Finance
Performance and
Procurement

Steve Harrison,
Financial Planning
Manager

Rachel Wood,
Pension Fund Strategist

Adam Chisnall,
Democratic Services
Officer

Part I

Declaration of Interests

1. Mr Donnelly declared a personal interest as he held shares with Standard Life and Baillie Gifford.
2. Rachel Wood declared a personal interest in relation to the ACCESS Pooling Update item as her husband works as a Principal Pensions Officer at East Sussex County Council.

Part I Minutes of the Pensions Panel held on 2 February 2018

3. The Panel proposed three amendments to the minutes; changing 'stabilizing' to 'stabilize' in minute 150; changing 'accrual' to 'target' in minute 151; and '2017' to '2018' in minute 162.
4. Resolved – that the Part I minutes of the Pensions Panel held on 2 February 2018, amended as above, be approved as a correct record, and that they be signed by the Chairman.

Business Plan (2018/19)

5. The Panel considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

6. Steve Harrison introduced the report and explained that it showed the full plan at the start of the financial year. The Panel would receive updates on progress throughout the year.

7. It was reported that the Pension Advisory Board would be increasing its frequency of meetings to four per year to align with the Pensions Panel, and would be increasing in size from four to six Board Members – plus the Independent Chairman.

8. The Panel made comments including those that follow.

- Queried whether reaching the 95% funding level trigger should be reported in the Investment and Funding section. – *Steve Harrison thought that the 95% level had been in the previous year, but resolved to investigate.*
- Asked if there was a set budget for training. – *Steve Harrison explained there was no set budget, but work was underway to consider joint training with the Pension Advisory Board to improve value for money.*
- Sought clarity on the level of training required for Panel members and commented that the training log should show training that had been previously completed. – *Steve Harrison reported that a training programme was being developed which would map training and also align with the Pension Advisory Board. The proposal to report previous training would also be taken forwards.*
- Mr Donnelly reported that his attendance at the Baillie Gifford: Global Alpha Investor Forum had not been included in the report.
- Sought clarity on the frequency of AVC reviews. – *Rachel Wood explained that the timeframe was set informally. The review would look to enhance the offerings for members.*
- Noted the £3.8bn total investment asset figure and asked what this had been one year previously. – *Rachel Wood reported that it should be updated to £4.1bn. Steve Harrison resolved to provide the previous figures on future reports. The Panel also felt it would be useful to see income figures.*
- Queried the lack of the cost of pooling on the budget. – *Rachel Wood reported that ACCESS had recently considered the budget and that this could be added to future reports. The Panel requested detail on spend to date.*
- Queried the risk impact for admitted bodies not meeting pension obligations. – *Steven Law confirmed that academies had an automatic right to join the Local Government Pension Scheme (LGPS) and had a Department of Education guarantee for pension obligations. Admitted bodies received a risk assessment when they joined the LGPS and would be considered as part of the fund valuation process. Bodies that had a higher risk would have different approaches for mitigation.*
- Commented on the performance action for social investment and that it should include the consideration that had been given to fossil fuel investments.

9. The Chairman requested that the Risk Register came back to a future meeting for consideration.

10. Resolved - That the Panel notes the updates to the 2017/18 Business Plan and agrees to the proposed activities for the 2018/19 financial year.

Investment Strategy Review

11. Steven Law gave an update presentation to the Panel on the Investment Strategy Review (copy appended to the signed minutes).

12. The presentation outlined options for balanced management and how the fund would consider equity and bond allocations within pooling. The fund could retain its current mandates (albeit within the pool); retain the balanced managers, but move a portion of their bonds to another specialist manager; or remove the balanced mandates and adopt a new approach with separate mandates/managers for equities and bonds.

13. The Panel made comments including those that follow.

- Queried how well bonds were performing. – *Caroline Burton reported that there had been a good relative return, however there could be more options with bonds with other fund managers. Caroline Burton felt that equity management should remain and that the movement of bonds could help with risk and diversity. Higher returns would not necessarily be expected from this.*
- Commented that the high funding level demonstrated that performance was high and that allocations should remain the same. – *Steven Law commented that 40% was now held in bonds and that expectations needed to change with regard to relative performance to other Funds and in respect of absolute returns.*
- Sought clarity on how the two fund managers split control of the fund. – *Steven Law explained that 85% of the fund was invested with two fund managers. This was high and the Panel had previously raised concerns on concentration risks. Caroline Burton added that funds with higher diversities were not performing as well.*
- Felt that allocations needed considering in light of pooling arrangements and proposed maintaining equity holdings and giving consideration to future bond arrangements.
- Asked if it was possible to move the balanced mandate over to pooling. – *Rachel Wood explained that it would be possible to maintain a balanced mandate in the pooling structure, however this would come with additional fees and so value for money would have to be considered. As the balanced mandate would be only for the West Sussex LGPS, there would be no scale efficiencies with other funds in the pool investing in the sub-fund. Steven Law added that Link, as the appointed Operator for the fund, would negotiate fees on the fund's behalf. Caroline Burton proposed waiting on this decision until there were more options to consider within the pool.*
- Queried if the level of fees required to move the mandate could be used to demonstrate evidence to the government as grounds for keeping the mandate outside of the pool. – *Rachel Wood proposed that it would be unlikely that they would allowed to remain outside of the pool permanently.*
- Discussed retaining the same fund managers. – *Steven Law reported that UBS had recently struggled against a strong headwind, and Baillie Gifford has seen the benefit of the tail wind. Long term conviction with these fund managers had paid off for the fund.*

- Queried the use of passive investments. – *Caroline Burton confirmed that the fund did not generally consider the use of passive investments and added that she would be surprised if passive gilt options would be proposed for pooling. Rachel Wood resolved to look at the detail on this.*
- Noted Baillie Gifford's added value through asset allocation since inception was c.0.2% and asked for the same figure for UBS. – *Rachel Wood explained that officers were working on this as UBS used a different approach to tactical allocation. The answer would be provided to the Panel in the future.*
- Noted that LAPF Investments showed the West Sussex LGPS was ranked third.

14. Steven Law concluded that there was a lot of outstanding work to do with Link and the fund had to consider the impact of the sub fund, transition costs, and how Link would report these to the Panel.

15. The Chairman felt that at this time the Panel was happy to maintain a status quo and utilise the time to consider the market and opportunities available via the ACCESS Pool.

16. Resolved - That the Panel welcomed the presentation.

Update on work with ACCESS Pool

17. The Panel considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

18. Rachel Wood introduced the report and confirmed that Link had been appointed as the Operator and that the application for the first sub fund would be sent to the Financial Conduct Authority for approval in May.

19. The Chairman thanked Rachel Wood, Vickie Hampshire and all the officers involved for their work on pooling.

20. The Panel sought detail on the impact of not participating in the last tranche. – *Rachel Wood explained that the negative of the last tranche was that the Fund would not be able to use its asset value as leverage discussion on the sub-funds offered. However, it would still have the opportunity to actively participate in the discussion.*

21. Resolved - That the report be noted.

Date of Next Meeting

22. The Panel noted that its next scheduled meeting will take place on 25 July 2018 at 10.00 a.m. at County Hall, Chichester. The Panel also noted that the Annual Meeting of the Pension Fund would take place on the afternoon of 25 July 2018 at County Hall, Chichester.

Exclusion of Press and Public

23. Resolved - That under Section 100(4) of the Local Government Act 1972,

the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I, of Schedule 12A, of the Act by virtue of the paragraph specified under the item and that, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

The meeting ended at 3.11 p.m.

Chairman

Summary of Matters discussed in the absence of the Press and Public on 30 April 2018

Part II Minutes of the Pensions Panel held on 2 February 2018

(Exempt, paragraph 3, Financial or business affairs of any person (including the authority))

The Panel agreed the Part II minutes of the Pensions Panel held on 2 February 2018.

Pension Administration

(Exempt, paragraph 3, Financial or business affairs of any person (including the authority))

The Panel noted the report.

Adviser Review

(Exempt, paragraph 3, Financial or business affairs of any person (including the authority))

The Panel received an update from Caroline Burton, Independent Adviser, relating to the quarterly reports from the fund managers. The Panel welcomed the advice.

Presentation by UBS.

(Exempt, paragraph 3, Financial or business affairs of any person (including the authority))

The Panel received an update from Malcolm Gordon, Jonathan Davies and Scott Wilkin from UBS on the portfolio performance for the quarter.

Presentation by Pantheon

(Exempt, paragraph 3, Financial or business affairs of any person (including the authority))

The Panel received an update from Rob Barr, Alex Scott and Richard Sem from Pantheon on the portfolio performance.