

# Minutes

Name of meeting	<b>ISLE OF WIGHT COUNCIL PENSION FUND COMMITTEE</b>
Date and time	<b>18 MAY 2012</b>
Venue	<b>CONFERENCE ROOM 1, FIRST FLOOR, COUNTY HALL</b>
Present	Councillors: Peter Bingham (Chairman), Vanessa Churchman, Wayne Whittle  Representatives: Penny McCoy, Admitted Bodies Representative Steve Milford, Unison Representative  Officers: Dave Burbage, Strategic Director of Resources, Jo Thistlewood, Technical Finance Officer and Carol Harrison – Minutes.
Apologies	Councillors: Barry Abraham, Reg Barry and Ian Ward

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1. **Appointment of Chair:**

Cllr Peter Bingham had been appointed by the Council as the new chair of the Committee.

2. **Minutes of the meeting held on 18 November 2011 and 17 February 2012**

**RESOLVED:**

THAT the minutes of the meetings held on 18 November 2011 and 17 February 2012 were both agreed.

THAT Cllr Roger Mazillius be thanked for all his work as the previous chair of the Committee.

3. **Declarations of Interest**

Cllr Peter Bingham declared an interest in Item 6 on the agenda admitted bodies in relation to Ventnor Botanic Gardens as he was a friend of Ventnor Botanic Gardens.

4. **Public Question Time**

No members of the public were present.

## Business Items

### 5. **Proposal from Majedie regarding overseas listed equities (Paper C)**

The Strategic Director of Resources advised that he had received a request from Majedie to increase the amount they can invest in non-UK equities stocks. The Strategic Director of Resources pointed out that there were particular advantages which were set out in the report and had been discussed with Majedie. Advice had also been sought from Mercers who were comfortable with the proposals as outlined in the recommendations. Majedie were asking to be allowed to increase the maximum amount of non-UK stocks to 20%.

Mercer (Joanne Holden) stated that they rate Majedie very highly and the view of their researchers was that the proposed change would give Majedie slightly greater opportunities and were convinced that Majedie would not try to do anything new but would stay within their skills set which was analysing companies and picking stock; Mercers were content with the proposal. The limits proposed seemed sensible, the only slight concern being that it does introduce some limited currency fluctuation risk to the fund. Over the longer term this was not seen as a problem but it could introduce some short term volatility into the numbers. However, this was a secondary issue as the Committee was monitoring performance and would wish to take this into account.

#### RESOLVED:

THAT the Committee agreed to Majedie's proposal to increase the portfolio in non-UK equities to a maximum of 20%.

### 6. **Updated Position on Admitted Bodies (Paper D)**

The Strategic Director of Resources outlined and updated the Committee on the latest position with regard to admitted bodies and in particular those arising from the activities of the Council in changing service delivery. At the last meeting the Committee agreed that Southern Vectis (ex Wight bus employees) become an admitted body. There had also been outsourcing of Children Centres. A report is due to go to the Council's Cabinet next Tuesday (22<sup>nd</sup> May) concerning Ventnor Botanic Gardens and the Council had been in discussions which would result in it becoming an admitted body provided that it complies with the necessary statutory responsibilities and confirms various aspects through the admission agreement. The admission agreement was there to protect the fund by ensuring that any costs or additional pension liabilities are covered by the new admitted body or the Council and in the case of any termination or default by the Council.

The date of transfer was to be the 1<sup>st</sup> July 2012 when it would become an admitted body and the Committee was asked to formally agree that Ventnor Botanic Gardens Community Interest Company be admitted on that date. Further transfers will result in respect of Dinosaur Isle, Island Youth Water Activities Centre, and the Tourism Destination Management Organisation.

No additional financial liability will fall on other admitted bodies as a result of such arrangements.

RESOLVED:

THAT the Committee note the updated position on admitted bodies and formally agree to the inclusion of Ventnor Botanic Garden Community Interest Company, Dinosaur Isle, Island Youth Water Activities Centre and Tourism Destination Management Organisation once the formal admission agreements had been completed.

**7. Review of the Statement of Investment Principles (SIP), Funding Strategy Statement (FSS) and Governance Compliance Statement (Paper E)**

The Strategic Director of Resources outlined that in previous years he had reported on the SIP, FSS and Governance Compliance Statement as three separate reports but it was more sensible to bring them together because they are related. They were very much a draft documents, subject to change and will be considered at the annual meeting in July 2012 when representatives of admitted bodies will be in attendance to formalise their agreement.

During the year the Committee will be reviewing the structure of the fund, asset allocation and the fund managers performance for the three year period, so will need to be flexible.

Mercer's (Joanne Holden) reported that if the Committee looked at its asset allocation policy next year this report would then be updated and she was content with the idea of the three reports sitting next to each other. A lot of the risks that have been considered in the Funding Strategy Statement actually link back to the Statement of Investment Principles and this is a nice compact document.

The Chair referred to page E-7 of the report with reference to asset allocation and the fact that the committee had just agreed to a change in the Majedie non-UK equities investment. Following a discussion it was agreed that a paragraph should be added addressing the change to 20% in the Statement of Investment Principles.

Following a discussion regarding social, environmental and ethical considerations on page E-4 it was noted that this had been discussed at a previous meeting when correspondence had been received with reference to Lloyds Bank Group. In the response it was stated that a review would be undertaken later in the year when an overall review of the structure of the fund would take place and it would be appropriate to consider the Council's public health responsibilities and other issues around ethical and social considerations at that time. It would then be determined what the strategy should be and whether a more formal approach should be taken. This would include looking at investment returns and whether, as part of the strategy, we wish to be investing in certain stocks; any such consideration would be subject to advice from Mercers. It would then be for the Committee to decide whether a more formal strategy is adopted.

RESOLVED:

THAT the report be noted and the draft documents submitted for approval at the July 2012 Committee.

## **Fund Performance**

### **8. Draft Pension Fund Risk Report (Paper F)**

The Strategic Director of Resources reported that this was the first risk report for the fund and sets out the risks the Fund faces. It was important to recognise that the report outlines risk to the fund rather than risk to the council and the scoring reflects this. It was important to consider the actions being taken to mitigate and control risk and these were set out under each one.

#### RESOLVED:

It was agreed that this report was to be a standing item on the agenda, and that a column be inserted to reflect any change from the previous report.

## **Fund Performance**

### **9. Attendance of Fund Managers**

#### **Report of Schroders (Edward Chamberlayne, Jonathan Harris and Andy)**

Edward Chamberlayne set out details of performance of the three mandates. All three portfolios had outperformed their benchmark in Q1 2013. However, UK equity and fixed income returns were below the benchmark on a 1 year rolling basis. Over the period since inception of the mandates in August 2009 the fixed income and property mandates had outperformed their benchmarks but the UK equity portfolio had underperformed. Cllr Churchman asked why property returns had been so strong over this period and Edward Chamberlayne explained that this reflected a recovery in values following the sharp falls in 2008/09. Returns from property had now levelled out.

Jonathan Harris outlined developments in the fixed income market. The perceived safe haven status of UK gilts had driven down their yields over the last 12 months resulting in strong absolute returns. Yields currently looked unattractive on a valuation basis but given the continuing uncertainty about the path of the global economy it seemed unlikely that yields would increase significantly in the near term. Corporate bonds were more attractive than gilts as they offered a higher yield and many companies had strong balance sheets having reduced their level of borrowing over the past few years.

Andy Simpson provided details of the UK equity portfolio. He explained that the modest bias to cyclical companies had been detrimental to performance in 2011 as the stock market became more risk averse as the European debt crisis escalated once more. However, the portfolio consisted of good quality companies with valuations that were compelling on a historical basis. It was possible to buy companies such as Vodafone on a dividend yield of over 7%.

Edward Chamberlayne summarised the position of the property portfolio. He described the big divergence in yield of primary and tertiary property and said that whilst the fund had so far benefited from its preference for prime the movement in valuations was now providing opportunities in some good quality secondary

properties. The outlook was for flat returns from property in 2012 but over the following three years Schroders anticipated returns of around 5-7% per annum.

Cllr Peter Bingham  
CHAIRMAN