Minutes

Name of meeting	**ISLE OF WIGHT PENSION FUND COMMITTEE**
Date and time	**FRIDAY, 30 NOVEMBER 2012 at 10.00 AM**
Venue	**COUNCIL CHAMBER, COUNTY HALL, NEWPORT, ISLE OF WIGHT**
Present	Councillors: Peter Bingham (Chairman), Barry Abraham, Reg Barry, Vanessa Churchman and Stuart Hutchinson, Ian Ward Representatives: Chris Lisher, Admitted Bodies Representative Steve Milford, Unison Representative Officers: Dave Burbage, Strategic Director of Resources, Jo Thistlewood, Technical Manager and Carol Harrison – Minutes.
Apologies	Councillor: Wayne Whittle

RECORDING

19. **Minutes**

Members reviewed the minutes of the previous meeting held on 13 July 2012.

RESOLVED:

THAT the minutes be agreed as a correct record.

20. **Declarations of Interest**

Cllr Reg Barry declared an interest as a member of the Isle of Wight Pension Fund and in receipt of an Isle of Wight Council Pension.

21. **Public Questions Time**

No members of the public were present.

Reports of the Strategic Director of Resources

22. **Review of Asset Allocation and Fund Managers Structure**

The Strategic Director of Resources presented the report which outlined the overall asset allocation and investment management structure of the Fund which was previously reviewed in 2008 and implemented following a comprehensive tendering exercise.

As discussed at previous Committees, there is a need to review the asset allocation of the fund and the manager performance on a regular basis and the new arrangements have now been in place for three years and it is an appropriate time to undertake this review.

The report set out the background to the change in management structure the overall objectives of the Fund through the Funding Strategy Statement etc. and looks at the performance of the individual managers over the period since inception. In overall terms the fund performance on an annualised basis was 8.8% compared to the benchmark of 8%. Although that is very good it is still below the overall performance benchmark which would equate to 9.66% over all the mandates...

Within this performance, which was varied, on UK equities Majedie have outperformed the benchmark by 1.8% pa whereas Schroder underperformed by 1.0%.

Even within the three year period performance has been volatile, for instance the performance of Newton on global equities was very poor in 2011 but has picked up significantly in the last two quarters, which emphasises the point about not being too short-term in considering performance.

As far as the asset allocation is concerned there are a number of issues around what the asset allocation should be and the Committee is asked to consider whether the current overall structure and asset allocation should be changed or if we should review it in some way. The Committee are recommended to take advice from Mercers and then following that advice consider what further report is required on potential changes to the asset allocation and management structure.

Jo Holden took the Committee members through issues to be considered for the asset allocation changes.

Broadly a third of the fund is with Newton, just over 20% with Majedie in the UK and 15% in Schroder UK and 8% in property and 22% in bonds. I would recommend leaving Newton as they are at the moment. I think they are not 100% demonstrating that they are out of the woods but certainly feel they are moving in a more positive direction, so for the moment I don't think they are number one of our priority list to change.

On Majedie we have a preference for coming out of the UK and going more global, however, when you have a good active manager who has proven time and time again that they can perform, it is a reasonably concentrated portfolio and they are only investing in stocks that they like very much and not investing blindly across the UK market. I recommend we leave that alone as well.

Schroder however, I recommend terminating for two reasons one is that the Fund has too much in UK equities, but also we don't think they have the team in place to be able to outperform going forward. They have not provided good enough balance to Majedie, and they will detract more than they are likely to add over coming years. You have had Schroder over a long enough period of time to demonstrate whether they can perform in the UK and that is not their strength. They are good at other things but not UK.

The Fund has 70% in equities at the moment and I feel that is too high from a risk level. We should trim the amount held in equities and diversify. That is the first thing you have got to do and to achieve this, the Schroder UK equities mandate would be ended.

This would take equities down from 70% to 55% and this would allow 15% to diversify into a mandate. With the aim of limiting volatility rather than just looking for increased performance.

There are a number of different diversified growth fund managers in the market and the Committee need to consider what type of fund model best meets their objectives.

In terms of costing diversified growth funds are pretty pension fund friendly in the sense that their fees are broadly similar to those you would pay for an active equity manager.

Dave Burbage recommended that we look further at what procurement process should be followed and report back to the Committee in February, with a recommended process and a bit more detail around cost and fees. The process would probably take up to a final agreement being made at the July committee 2013 which would be post-election.

The Chairman asked if the Committee were all happy to go for a fourth fund manager or should we be looking at diversifying within the existing fund managers. Is everybody happy with that principle?

Secondly are we happy with the figure, are we content with that or do we want to discuss anymore?

RESOLVED:

THAT:

(i) In principle the overall structure of the Fund be changed by ceasing the UK equities mandate with Schroder and that 15% of the Fund be invested in a diversified growth fund instead.

(ii) A further report be brought back to the February Committee setting out the recommended process and timescales for the change in structure.

(iii) It was also agreed that the Bond Portfolio should have a widened mandate to diversify and increase returns and that Mercers would work with Schroder to develop an appropriate strategy.

23. **Government Consultation on Local Government Pension Scheme: Investment in Partnerships**

The Strategic Director of Resources updated the committee with the proposals on the Local Government Pension Scheme: Investment in partnerships.

The government have been considering, for some time, the investment by Local Authority Pension Funds in new infrastructure projects with a view to stimulating growth in the economy.

The consultation, therefore, seeks views on whether there is merit in amending the Investment Regulations to provide further flexibility in the area relating to partnerships.

In the current regulations there is a maximum limit that can be invested in limited liability partnerships of 15% of the fund, the suggestion is to increase this to 30% or create a new investment class for investments in infrastructure.

Hymans view is that increasing the limit from 15 – 30% will not mean an additional £22 billion investment in infrastructure since only a small number of LGPS funds are currently close to the current 15% and funds are likely to use partnership investment vehicles for a broader range of investments than UK infrastructure.

It was not intended to respond specifically to the consultation but to inform the Committee of the proposals.

A question was raised as to whether it would be possible to set up a local scheme, a scheme for money to be spent on the Isle of Wight.

The Strategic Director of Resources responded by saying technically yes, although it is understood that Hampshire County Council's policy is to invest in such schemes but not in the local area, because of a conflict of interest.

We would need to look at proper investment advice, returns, risk etc. any investment would need to be in accordance with the regulations. The first issue would be the need for such an investment. Invariably if there is good investment prospects then investors would invest in them. We would need to be clear about what we were attempting to achieve by investing. There would need to be a business case and clearly the Committee's responsibilities are in a trustee role around the diversification of returns and the management of the pension fund.

RESOLVED:

THAT the Committee note the report and that Mercer would do a response and share this with the committee.

24. **Pension Fund Risk Report**

The Strategic Director of resources went through the standard report and highlighted that there was nothing of great concern. Each risk is gone through with a commentary, the current risk rating, the target and what we are doing to mitigate the risk.

RESOLVED:

THAT the report is noted.

25. **Performance Review September 2012 – Fund Managers**

Newton Global Equities
Attendees: Paul Markham (alternate Investment Manager);
David Moylett (Account Manager).

Mandate: Aim to outperform MSCI All Countries World Index by 2% per annum over rolling 5 year periods.

Current value: £110m as at 20 November 2012

Performance to 30th September 2012: 3 months (Fund +5.9% versus benchmark +3.8%); year to date (Fund +13.7% versus benchmark + 8.6%); 1 year (Fund +19.4%% versus benchmark +16.7%); since inception on 28/08/2009 (Fund +10.2%pa versus +8.8%pa).

Summary of presentation:
The Newton delegates introduced themselves and explained their respective roles.

The economic and market background over the last four years has been very challenging. There has been little real progress on debt reduction since Northern Rock got into difficulties five years ago with Lehman Brothers collapsed over four years ago despite the concerted efforts of global authorities to resolve the financial crisis.

The major challenge for investors over recent years has been the downward pressure on economies caused by the huge mountain of global debt that took decades to build up versus the frequent substantial financial rescue packages that the authorities have launched to try to stimulate growth. In recent times, investors have woken up to the scale of the debt problems so the any relief rallies in stock markets triggered by interventions by the authorities have become shorter and shorter. There is a clear acceptance by investors that major reconstructive surgery is needed as opposed to regular doses of short term medicine.

Newton's performance has been strong in absolute and relative terms over the latest quarter and over the calendar year to date. This resulted from the portfolio's mixture of stable growth companies, with good stock selection in almost every industrial sector of the market. The biggest negative over the year to date was not holding Apple, now the worlds' largest stock but the share price has struggled in recent months which should be a relative benefit.

Looking forward, against what Newton believed will continue to be a challenging background the focus of the portfolio continues to be on identifying stable growth companies rather than cyclical growth companies. Consequently, the portfolio remains overweight in healthcare, consumer staples and telecommunications companies. They have also identified a number of attractive opportunities in the technology sector. The largest underweight sectors are financials (where Newton continues to shun most western banks), industrials and consumer discretionary sectors where fortunes of many of the participating companies are likely to be correlated with the economic background.

The presentation concluded with Newton expressing their confidence that their relative performance will continue to be good over the longer term. They also flagged up that the balance between the requirement to reduce the unprecedented levels of global debt and the need to stimulate growth likely to generate further market volatility over the short and medium term.

Meeting closed at 1.00 pm

CHAIRMAN