

## **DURHAM COUNTY COUNCIL**

### **PENSION FUND COMMITTEE**

At a Meeting of **Pension Fund Committee** held in Committee Room 2, County Hall, Durham on **Thursday 10 September 2015 at 10.00 am**

#### **Present:**

**Councillor A Turner (Chairman)**

#### **Members of the Committee:**

Councillors C Carr, M Davinson, B Kellett, J Lethbridge, N Martin, J Shuttleworth and H Smith

#### **Darlington Borough Council Members:**

Councillor S Harker

#### **Pensioner Representative:**

D Ford

#### **Also Present:**

##### **County Council Advisers**

D McLure – Corporate Director, Resources

H Appleton – Strategic Finance Manager – Corporate Finance

N Orton – Team Leader Operations and Data/Pensions

##### **Independent Advisers**

P Williams – P J Williams

R Bowker – P-Solve

D Banks – P-Solve

#### **1 Apologies for Absence**

Apologies for absence were received from Councillor J Alvey, W Stelling and Admitted Bodies representative John Norton.

#### **2 Declarations of interest**

There were no declarations of interest.

#### **3 Minutes**

The Minutes of the meeting held on 4 June 2015 were agreed as a correct record and were signed by the Chairman.

Councillor Shuttleworth referred to training for new Members of the Committee which had been raised at the last meeting and was informed that this would be addressed.

At this point item numbered 25 on the Agenda was brought forward to be considered under Part A. Members were informed that in future Internal Audit Progress Reports would be considered in Part A unless there was any confidential information to be reported.

#### **4 Internal Audit Progress Report to 30 June 2015**

Consideration was given to the report of the Corporate Director, Resources which outlined progress made in delivering the agreed internal audit plan relevant to the Pension Fund Committee for 2015/2016 (for copy see file of Minutes).

##### **Resolved:**

That the work undertaken by Internal Audit during the period ending 30 June 2015, and the assurance on the control environment be noted.

#### **5 Graphs showing recent movements of the Stock and Share Indices**

Consideration was given to graphs showing recent movements in the Stock and Share Indices (for copy see file of Minutes).

The graphs captured the beginning of the setback in equity markets and Robbie Bowker, P-Solve explained the market conditions in the first few days of September 2015. The UK market was down by almost 6% with emerging markets down 14%.

The stock market sell-off had been triggered by events in China. China was the second largest economy and a big importer, and was therefore very important in the world-wide market. Commodities also fell by 15% which affected emerging markets. When the news of China broke, huge daily market volatility resulted. Equity markets remained volatile and investors were nervous, taking a more defensive approach.

In response to questions from Councillors Shuttleworth and Martin about the potential impact on interest rates, Robbie Bowker advised that there was a lot of pressure on bond markets as private pension schemes looked to purchase. Banks were also buying more bonds putting additional pressure on the bond market and this was keeping interest rates suppressed. However he did not envisage that interest rates would increase to levels previously seen.

In terms of liabilities, because investors were being risk averse, long-dated bonds had been the best performing asset in the 3 month period. This was a difficult environment for pension schemes as the value of liabilities rose sharply.

##### **Resolved:**

That the information given be noted.

**6 Graphs showing recent movements of the major currencies against sterling**

Consideration was given to graphs showing recent movements of the major currencies against sterling (for copy see file of Minutes).

**Resolved:**

That the information given be noted.

**7 Performance Measurement of Pension Fund Investments to 30 June 2015**

Consideration was given to the report of the Corporate Director, Resources which gave an overview of the performance of the Fund to 30 June 2015 (for copy see file of Minutes).

The report gave details of the Managers' performance against their benchmarks for the quarter, the year to date and since inception of the Fund.

Members were informed that representatives from J P Morgan would give a presentation to Members under Part B of the Agenda on current services the custodian provided and new products.

**Resolved:**

That the information contained in the report produced by J P Morgan be noted.

**8 Overall Value of Pension Fund Investments to 30 June 2015**

Consideration was given to the report of the Corporate Director, Resources which informed Members of the overall value of the Pension Fund as at 30 June 2015, and of any additional sums available to the Managers for further investment or amounts to be withdrawn from Managers (for copy see file of Minutes).

Councillor Martin referred to Appendix 1 of the report and noted a transaction in 'other contributions' of £7m. Don McLure, Corporate Director, Resources advised that this was a payment from Durham Constabulary's cash reserves to reduce deficit payments.

**Resolved:**

That the information contained in the report be noted.

**9 Short Term Investments for the Period Ended 30 June 2015**

Consideration was given to the report of the Corporate Director, Resources which provided the Committee with information on the performance of the Pension Fund's short term investments as at 30 June 2015 (for copy see file of Minutes).

**Resolved:**

That the position as at 30 June 2015 regarding the Pension Fund's short term investments where £60,448 net interest was earned in the three month period, be noted.

**10 Pension Fund Policy Documents - Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP)**

Consideration was given to the report of the Corporate Director, Resources which informed Members of the outcome of the consultation regarding the FSS and SIP and sought approval of the documents (for copy see file of Minutes).

**Resolved:**

That the contents of the revised Pension Fund's policy documents be approved for publication on the Council's website.

**11 Statement of Accounts for the Year Ended 31 March 2015**

Consideration was given to the report of the Corporate Director, Resources which presented the Pension Fund Accounts for the year ended 31 March 2015 (for copy see file of Minutes).

Hilary Appleton, Strategic Finance Manager – Corporate Finance directed Members to key information from the Accounts which was set out in paragraph 12 of the report.

The Audit Completion Report would be presented to Members in December 2015, together with an Action Plan designed to address any Auditor's recommendations at the conclusion of the Audit.

**Resolved:**

That the contents of the report be noted.

**12 Self-Assessment of the Pension Fund Committee**

Consideration was given to the report of the Corporate Director, Resources which sought to review the role of the Pension Fund Committee and summarised the activities and achievements in 2014/2015 that demonstrated how the Committee had fulfilled its role in order to be able to complete a self-assessment in line with the Terms of Reference (for copy see file of Minutes).

Members considered the process for self-assessment; whether additional information and/or reports were required and whether any training requirements had been identified.

Don McLure advised that the proposed training session identified for new Members would also be a useful tool to inform the self-assessment process. Councillor Martin suggested that training could also provide an opportunity to look at other key areas such as the FSS and SIP, how the Authority approached ethical investments and how the new global investment managers were working.

David Ford concurred with the views of Councillor Martin which he felt might help to inform the Committee of reports it wished to receive in future. He suggested that Members be forwarded the report and be asked to consider each of the recommendations listed in paragraph 26.

**Resolved:**

That the report be circulated to Members of the Committee to give consideration to the recommendations listed in paragraph 26, and comments be forwarded to Hilary Appleton, Strategic Finance Manager – Corporate Finance. A further report to be submitted to the next meeting of the Committee.

**13 Pooling of LGPS Investments**

Consideration was given to the report of the Corporate Director, Resources which provided Members with an update on Government proposals for pooling of investments in the Local Government Pension Scheme (for copy see file of Minutes).

In response to a question from Councillor Carr, Don McLure advised that it had been suggested in the local government financial press that there would be an emphasis on the size of the pools, expected to be in the tens of £billions, and regionally the value of Pension Funds may not be sufficient to meet the Government's criteria.

Councillor Martin made the comment that there may be some administrative savings and he could see the advantage of this in areas such as London which had a number of small Boroughs. The size of a pooled investment vehicle would make a difference in terms of achieving value and the use of passive investments would be inadvisable.

Following a question from Councillor Davinson, Daniel Banks of P-Solve confirmed that it may be difficult to exit a large pooled investment quickly, particularly if the vehicle investment was in infrastructure.

David Ford was of the view that becoming a small part of a large pooled fund may not be beneficial, and the clear advantages should be demonstrated before agreeing to participate in any pooled investment vehicle.

**Resolved:**

That the information contained in the report be noted.

**14 Annual General Meeting of the Pension Fund to be held on 5 November 2015**

Consideration was given to the report of the Corporate Director, Resources which informed of arrangements for the Annual General Meeting of the Pension Fund (for copy see file of Minutes).

**Resolved:**

That the date of the Annual General Meeting on 5 November 2015, be noted together with the invitation for Members to attend.