

DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in Committee Room 2, County Hall, Durham on **Thursday 3 March 2016 at 10.00 am**

Present:

Councillor A Turner (Chairman)

Members of the Committee:

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

Apologies:

Apologies for absence were received from Councillors W Stelling and Ford

Also Present:

Prior to the commencement of business the Chairman of the Council thanked Philip Williams, Robbie Bowker and Daniel Banks for the independent advice they had provided to Durham Pension Fund since November 2004.

1 Apologies for Absence

Apologies for absence were received from Councillor W Stelling and Pensioner Representative David Ford.

2 Declarations of interest

Councillors Carr and Davinson advised that they were Members of the Audit Committee.

3 Minutes

The Minutes of the meeting held on 15 December 2015 were agreed as a correct record and were signed by the Chairman.

4 Graphs showing recent movements of the Stock and Share Indices

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

Philip Williams advised that since January 2016 bond yields had fallen to their lowest ever levels and equity markets had also experienced a downturn. This would have an impact on the actuarial valuation of the Pension Fund due on 31 March 2016. Daniel Banks was of the view that the low bond yields globally would be a long-term trend and prices may fall even further.

Robbie Bowker provided an update to the end of February 2016. He advised that the position in China where markets had fallen by 10% on 23 August 2015, the fall in oil prices, interest rate levels, geopolitical issues and more recently Brexit had contributed to the fall in returns on the major asset classes and bond markets in particular. The UK Markets were down 2.3% and Japanese markets by 6%. Emerging markets were performing better and could be good value at present. In such market conditions investors tended to adopt an offensive stance, seeing UK Government gilts as safe and this was pushing the prices upwards.

Given the current global market volatility Councillor Carr asked if the Fund's investments in the US had been affected.

Philip Williams responded that CBRE continued to perform well ahead of target. Global property as a major asset class was still benefitting from growth.

Resolved:

That the information given be noted.

5 Graphs showing recent movements of the major currencies against sterling

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

Resolved:

That the information given be noted.

6 Overall Value of Pension Fund Investments to 31 December 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 31 December 2015, and of any sums available to the Managers for further investment or amounts to be withdrawn from Managers (for copy see file of Minutes).

In response to a question from Councillor Carr, Nick Orton confirmed that the number of active members of the Pension Fund Committee could be expected to continue to fall. The actuarial valuation was due as at 31 March 2016 and the Actuary, in looking at the Fund's assets/liabilities would take into account the scheme's membership profile.

Councillor Martin noted that JP Morgan, the Fund's Custodian had again been unable to produce performance and value figures. Hilary Appleton advised that because of a technical problem regarding the Custodian's quality system, it had

been unable to provide figures relating to overall performance. However JP Morgan's Relationship Manager had offered an assurance that the information would be available the following week.

Members asked that their concern and disappointment that JP Morgan had once again been unable to provide the information and had therefore been unable to fulfil its role as Global Custodian.

Resolved:

That the information given be noted and the information from J P Morgan be circulated to the Committee on receipt.

7 Short Term Investments for the Period Ended 31 December 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 31 December 2015 (for copy see file of Minutes).

Resolved:

That the position at 31 December 2015 regarding the Pension Fund's short term investments where £57,612 net interest was earned in the three month period be noted.

8 Investment of the Pension Fund's Cash Balances

Consideration was given to the report of the Corporate Director Resources which provided an update on the Treasury Management service provided to the Pension Fund and reviewed the charges for the services and the calculation of interest on short term investments administered by the County Council for 2016/2017 (for copy see file of Minutes).

Resolved:

That with effect from 1 April 2016:

- (a) the Pension Fund continues to invest its cash balances with the County Council in line with the County Council's Treasury Management Strategy;
- (b) interest be paid quarterly to the Pension Fund at a rate based on the daily cash balance and the 3 month LIBID interest rate;
- (c) an administration fee of £2,500 per quarter be paid to the County Council for the Treasury Management function being carried out on behalf of the Pension Fund; and

- (d) in the event of the loss of an investment, the Pension Fund will bear the loss in proportion of the value of cash balances held at the time of the investment with Durham County Council.

9 Pension Fund Policy Documents - Funding Strategy Statement and Statement of Investment Principles

Consideration was given to the report of the Corporate Director Resources which informed members of the Review of the Funding Strategy Statement and Statement of Investment Principles for the year ended 31 March 2016 (for copy see file of Minutes).

Resolved:

That the contents of the report and the review of the Pension Fund's policy documents be noted.

10 Agreement of Accounting Policies for Application in the 2015/2016 Financial Statements of the Pension Fund

Consideration was given to the report of the Corporate Director Resources which informed the Committee of the accounting policies to be applied in the preparation of the 2015/2016 Final Accounts and to seek confirmation from the Committee that appropriate policies were being applied (for copy see file of Minutes).

Resolved:

That having reviewed the accounting policies, the Pension Fund Committee:-

- a) noted that there were no changes to the Code of Practice;
- b) approved the policies in the preparation of the 2015/2016 financial statements for the Pension Fund;
- c) authorised the Corporate Director Resources to revise the accounting policies as necessary and report any significant changes to the Committee.

11 Terms of Reference - Annual Review

Consideration was given to the report of the Corporate Director Resources which reviewed the Terms of Reference for the Pension Fund Committee (for copy see file of Minutes).

In response to a question from Councillor Martin, Nick Orton confirmed that the Terms of Reference would be amended in due course to reflect the Committee's role in monitoring the performance of the Partnership established for the pooling of assets.

Resolved:

That the Terms of Reference detailed in Appendix 1 of the report be accepted and be reviewed at least on an annual basis.

12 Local Government Pension Scheme Investment Regulations

Consideration was given to the report of the Corporate Director Resources which provided an update on the Pension Fund's response to the Government's consultation on the revocation and replacement of the Local Government Pension Scheme (Investment and Management of Funds) Regulations 2009 (for copy see file of Minutes).

Beverley White reported that the response to the consultation had been submitted by the Corporate Director Resources, following consultation with the Chairman and Vice-Chairman of the Committee, before the deadline of 19 February 2016 and was attached to the report at Appendix 1.

In response to a question from Councillor Carr, Nick Orton advised that there was a Government expectation that pooled funds would invest in UK infrastructure, however Funds would remain responsible for their own asset allocation.

Resolved:

That the contents of the response to the Government on the revocation and replacement of the Local Government Pension Scheme (Investment and Management of Funds) Regulations 2009, be noted.

13 Local Government Pension Scheme: Pooling Update

Consideration was given to the report of the Corporate Director Resources which provided an update on progress made towards meeting the Government's requirements on a shared investment approach through pooling Local Government Pension Scheme Fund assets (for copy see file of Minutes).

Nick Orton advised that as reported at the last meeting the Pension Fund Committee Chairs and Vice-Chairs and Officers from the three north east Funds had met and agreed that it was not practical to form a separate north east pool. The report provided progress to date and informed Members of the decision to join the Border to Coast Pensions Partnership, on the advice and support of Durham Fund's Advisers. The Partnership's joint submission to Government was attached to the report at Appendix A.

Officers would continue to work with colleagues in the Partnership to further develop pooling proposals.

Nick Orton briefed Members on meetings he had attended with Beverley White that week at which colleagues in the Partnership had discussed options for the legal structure of the pooled arrangement. The Government's preferred option was an approved contractual scheme where Funds would not own their individual assets

but would be shareholders. There were clear tax advantages to this. Other options were discussed which included a joint Committee approach.

In response to a question from Councillor Carr about legal commitments with existing Fund Managers, the Member was informed that this would have to be managed within the transition timetable. Within the submission the timetable suggested transfer of listed assets by December 2018, but up to 15 years for the transfer of any unlisted holdings, also the Government had accepted that Funds would not be forced to disinvest where there were financial penalties. Philip Williams added that the Fund was entitled to terminate any mandate but stressed the importance of seeking good investment advice.

In terms of the legal structure, Councillor Smith referred to the approved contractual scheme and asked if the cost in setting this up was likely to negate economies of scale achieved through pooling. Nick Orton confirmed that in the short term this would be a cost to all Funds.

Following a question from Councillor Martin, the Member was advised that self-management was inexpensive but should be evaluated carefully to ensure that it would be the most appropriate option for the Fund.

Resolved:

That the information given be noted and further progress be reported at subsequent meetings of the Committee.

14 Procurement of Professional Services

Consideration was given to the report of the Corporate Director Resources which provided Members with an update on the progress made to date regarding the procurement of professional services required for the Pension Fund (for copy see file of Minutes).

The report advised of progress in the appointment of the Fund Actuary, Pension Fund Adviser and the Global Custodian.

Resolved:

That the progress made to date regarding the procurement of professional services required for the Pension Fund, be noted.

15 Internal Audit Plan 2016/2017

Consideration was given to the report of the Corporate Director Resources which presented the Annual Audit Plan for 2016/2017 for approval (for copy see file of Minutes).

Resolved:

That the proposed Audit Plan for 2016/2017 be approved.