

Minutes of the Pensions Panel Meeting held on 6 March 2018

Attendance

Philip Atkins, OBE (Chairman)	Mike Sutherland
Derek Davis, OBE	Stephen Sweeney

Also in attendance: Carolan Dobson (Independent Adviser), Ian Jenkinson (Observer), Graeme Johnston (Hymans Robertson), Tim Legge (Observer) and David Thomas (Independent Adviser).

PART ONE

91. Declarations of Interest

There were no Declarations of Interest on this occasion.

92. Minutes of meeting held on 5 December 2017

RESOLVED – That the minutes of the Meeting of the Pensions Panel held on 5 December 2017 be confirmed and signed by the Chairman.

93. Pension Fund Performance and Portfolio of Investments as at 31 December 2017

The Director of Finance and Resources submitted a summary of the performance of the Pension Fund, together with a portfolio of the Fund's investments, as at 31 December 2017.

The Panel were informed that the Fund had a market value of £4.9 billion as at 31 December 2017; the highest reported to date. However, since the quarter end there had been a fall in global markets, which impacted the market value of the Fund, seeing it drop back to an estimated £4.7 billion at the beginning of March. Over the quarter the Fund returned 3.8%, slightly underperforming its strategic benchmark by -0.2%. The best performing asset classes relative to their benchmarks were the Bonds and the Alternatives portfolios. Underperformances in Property and Emerging Markets detracted from performance against the benchmark, although absolute returns across all asset classes were positive.

Despite the marginal underperformance this quarter, the Fund had outperformed its strategic benchmark in the 1, 3 and 5 year time periods. Annualised returns over both 3 and 5 years were in excess of 11% per annum, well above the investment return assumptions used by the Actuary as part of the triennial valuation.

RESOLVED – That the Pension Fund Investment performance and the portfolio of investments for the quarter ended 31 December 2017 be noted.

94. Approved Investment Strategy for Pension Fund Cash 2017/18

The Director of Finance and Resources reported that revisions in the Pension Fund Investment Regulations no longer specifically required the Fund to have an Annual Investment Strategy (AIS) for the investment of internally managed Pension Fund Cash. However, as good practice, it was proposed to continue to publish such a Strategy.

The Panel noted that the Pension Fund had a small strategic asset allocation to cash of 1%, recognising that cash balances were needed for the day to day management of the Pension Fund. This cash was managed by Officers in the County Council's Treasury and Pension Fund Team, to provide liquidity and pay bills as they arose. It was not invested solely to seek a return and was not usually considered a major asset allocation decision.

The cash held increased from time to time, pending investment in other major asset classes e.g. property and private debt. The proposed AIS therefore needed to allow for such situations occurring and the Panel would need to agree these temporary increases as part of its quarterly review of the strategic asset allocation benchmark, together with any associated ranges. Also during 2017/18, tactical divestments from equities were made when valuations were high; the proceeds from these were still being held in cash pending reinvestment. As a result of these relatively high cash balances, the Director of Finance and Resources authorised the increase in the investment limits for individual Money Market Funds (MMF's) (including cash plus funds) from £30m to £40m during the year and these increased limits were still in effect.

The proposed main objectives for the AIS were to:

- provide security of capital (i.e. ensure the return of the money and interest);
- provide liquidity (i.e. pay the bills as they fell due and ensure funds were available for reinvestment when needed); and
- earn interest (i.e. obtain a reasonable return within the constraints outlined above).

The Panel noted that the main circumstances where a revised strategy would be prepared included a change in:

- the Fund's strategic asset allocation;
- the economic environment;
- the financial risk environment; and
- the regulatory environment.

To allow for the practical management of the treasury transactions each day, it was proposed that the change in investment limits and the choice over the investments made be delegated to the Director of Finance and Resources. Outside of this, the Pensions Panel would need to assess any specific requirements and consider any changes that may be required to the AIS.

In response to a question by Mr Davis in relation to the Fund's ability to use its overweight position in cash to invest in the provision of housing stock within Staffordshire, the Director of Finance and Resources indicated that a large proportion of

the cash was already committed and was awaiting draw-down. The Director added that the Pension Fund had a fiduciary duty to its members and that any decision to invest in housing stock would need to be in accordance with the Fund's strategic asset allocation and investment strategies and within that would need to be the right investment for the Fund and ultimately in the best financial interest of the Fund's members.

RESOLVED – (a) That the Annual Investment Strategy (AIS) for the Staffordshire Pension Fund for the investment of internally managed Pension Fund cash be approved.

(b) That the Director of Finance and Resources be authorised to take any necessary urgent action to amend the Annual Investment Strategy as a result of changes to the Fund's strategic asset allocation, the economic environment, the financial risk environment, the regulatory environment or any other relevant factor.

(c) That the decision on the further use of 'cash plus and short bond' funds be delegated to the Director of Finance and Resources, after taking appropriate advice.

95. Dates of Future Meetings

- 5 June 2018
- 24 July 2018 (Managers' Day)
- 4 September 2018
- 4 December 2018
- 5 March 2019

All meetings are scheduled to start at 9.30am at County Buildings, Stafford.

96. Exclusion of the Public

RESOLVED - That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraph of Part One of Schedule 12A of the Local Government Act 1972 (as amended) indicated below.

PART TWO

The Panel then proceeded to consider reports on the following issues:

97. Exempt Minutes of the Meeting held on 5 December 2017
(Exemption paragraph 3)

98. Pension Fund Performance and Manager Monitoring for the quarter ended 31 December 2017
(Exemption paragraph 3)

99. Pooling of LGPS Investments
(Exemption paragraph 3)

100. Strategic Benchmark Review and Monitoring

(Exemption paragraph 3)

- a) Economic and Market Update
- b) Review of Position as at 31 December 2017

101. Responsible Investments (RI) Quarter 4 2017
(Exemption paragraph 3)

102. Property
(Exemption paragraph 3)

103. Managers' Presentations
(Exemption paragraph 3)

Hearthstone Investment Management Ltd

Chairman