Minutes of the Pensions Panel Meeting held on 5 March 2019

Attendance	
Philip Atkins, OBE (Chairman)	Colin Greatorex
Derek Davis, OBE	Mike Sutherland

Also in attendance: Carolan Dobson (Independent Advisor), Graeme Johnston (Hymans Robertson), Ian Jenkinson (observer) and David Thomas (Independent Advisor).

Apologies: Stephen Sweeney

The Chairman reported that this was Graeme Johnston's last Panel meeting as he was shortly to retire. The Panel expressed their thanks to Mr Johnston for the contribution he had made since he first commenced advising the Panel in May 2008.

PART ONE

37. Declarations of Interest

Carolan Dobson (Independent Advisor) informed the Panel that she had joined the Aberdeen Standard Fund Managers Board.

38. Minutes of meeting held on 4 December 2018

RESOLVED – That the minutes of the Meeting of the Pensions Panel held on 4 December 2018 be confirmed and signed by the Chairman.

39. Dates of Future Meetings

RESOLVED – That the dates of future meetings of the Panel, as set out below, be noted:

- 14 June 2019
- 11 September 2019
- 3 December 2019
- 3 March 2020

(Note: All meetings are scheduled to start at 9.30am at County Buildings, Stafford.)

40. Pension Fund Performance and Portfolio of Investments as at 31 December 2018

The Director of Corporate Services submitted a summary of the performance of the Pension Fund, together with a portfolio of the Fund's investments, as at 31 December 2018.

The Panel were informed that the Fund had a market value of £4.8 billion as at 31 December 2018 which had since increased to £5.047 billion as at 4 March 2019. Over the quarter the Fund returned -6.8%, matching its strategic return benchmark. The best performing asset class relative to its benchmark was the Alternatives portfolio. Equities were the main detractors from performance, with UK equities in particular faring the worst.

The Panel noted that the Fund had outperformed its strategic return benchmark over the 1, 3, 5 and 10- year periods. Annualised returns over the 3, 5 and 10-year periods were more than 8% 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 2018 be noted.

41. Approved Investment Strategy for Pension Fund Cash 2019/20

The Director of Corporate Services reported that previously Administering authorities were required to formulate a policy for the investment of Pension Fund cash by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009; as a result, the Fund produced a separate AIS for its cash balances. The more recent 2016 regulations, infer policies for Pension Fund cash should form part of the Investment Strategy Statement (ISS). However, the Fund considered it good practice to continue preparing a separate AIS for cash balances, with reference made to it within the ISS.

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. The management of this cash would continue to remain with the Fund and would not be transferred to LGPS Central under the LGPS pooling agenda.

The cash held increases from time to time, pending investment in other major asset classes e.g. property and private debt. The proposed AIS therefore needs to allow for such situations occurring and the Panel would need to review the strategic asset allocation benchmark to cash on a quarterly basis, together with any associated ranges.

The proposed main objectives for the AIS were to invest cash prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The objective when investing cash was to strike an appropriate balance between risk and return, thereby minimising the risk of incurring losses from defaults but also taking into account the risk of receiving unsuitably low investment income.

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 Chief Financial Officer (S151), who chairs the SCC Treasury Management Panel. Outside of this, the Pensions Panel would need to assess any specific requirements and consider any changes that may be required to the AIS.

With regard to risk. The Panel were informed that cash was only a small component of the overall investments of the Fund and the wider aspects of risk were considered in the ISS, where cash was shown to form a small part of the Fund's Strategic Asset Allocation. Looking at cash in isolation, treasury management usually recognised that the two prime risk areas were security and liquidity. It was considered that focussing primarily on these two risks was appropriate for the Fund's relatively low 1% allocation to cash, for day to day cash management purposes. However, the AIS provided the flexibility to consider higher yields using Non-Standard Investments. Should the Pensions Panel decide to make a higher strategic allocation to cash at some point in the future, where seeking a higher return would become more important, the balance of risk and reward would need to be revisited and the AIS reviewed.

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

- the Fund's Strategic Asset Allocation;
- the economic environment;
- the financial risk environment; and
- the regulatory environment.

In response to questions from Mr Jenkinson in relation to mitigating risk to the Fund, particularly via deposits with other local authorities, the Panel were informed that deposits with other local authorities could provide a higher return than other government investments, such as T-Bills and Gilts issued by central government, depending on the liquidity in the local authority lending market. Like central government investments, local government investments were not subject to bail in risk, although they were not completely without risk. The financial risks of a few local authorities have been documented in the press recently and the County Council's Treasury Management Panel continue to monitor the situation. They were also informed that the Fund would continue to consider short-term Money Market Funds (MMFs) for investment, as short-term MMFs which offered same day liquidity could be used as an alternative to instant access bank accounts. MMFs that met the criteria listed below would be considered to have sufficient high credit quality and be included on the Fund's Approved Lending List:

- Diversified – MMFs invest across many different investments meaning they achieved more diversification than the Fund could achieve on its own account;
- Short-term liquidity – cash could be accessed daily;
- Ring-fenced assets – the investments were owned by investors and not the fund management company; and
- Custodian – the investments were managed by an independent bank known as a custodian, who operated at arms-length from the fund management company.

With the Fund having had higher cash balances in recent years, cash-plus MMF's have been invested in to enhance investment returns. Cash-plus MMF's are similar to short-term (same day) MMF's but typically have 3-5-day liquidity notice period, as they invest further along the yield curve. Cash-plus MMF's are usually structured as a variable net asset value (VNAV) MMF, where underlying assets are marked to market and the unit price fluctuates daily, hence a minimum 6-month investment period is recommended. The AIS considers cash-plus funds as Non-Standard Investments. The further use of Non-Standard investments, as detailed in the AIS, was proposed to be delegated to the

Chief Financial Officer (S151), as Chair of the County Council's Treasury Management Panel.

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, to allow for the practical management of the treasury transactions each day, the change in investment limits and the choice over the investments made, including the Non-Standard Investments detailed in the AIS, be delegated to the Chief Financial Officer (S151).

42. 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:

43. Exempt Minutes of the Meeting held on 4 December 2018
(Exemption paragraph 3)

44. Pension Fund Performance and Manager Monitoring for the quarter ended 31 December 2018
(Exemption paragraph 3)

45. Strategic Benchmarking Review and Monitoring
(Exemption paragraph 3)

a) Economic and Market Update
b) Review of Position as at 31 December 2018

46. Responsible Investment (RI) Report Quarter 4 2018
(Exemption paragraph 3)

47. Draft Response to MHCLG on Asset Pooling
(Exemption paragraph 3)

48. Property
(Exemption paragraph 3)

49. LGPS Central - Corporate Bonds Sub-Fund
(Exemption paragraph 3)

Chairman