

## Minutes of the Pensions Panel Meeting held on 3 March 2020

Present:

Attendance	
Philip Atkins, OBE (Chair)	Mike Sutherland
Derek Davis, OBE	Stephen Sweeney
Colin Greatorex	

**Also in attendance:** Carolan Dobson (Independent Adviser), Anna Hawkins (Hymans Robertson), Ian Jenkinson (Observer), Paul Potter (Hymans Robertson), Tracy McCready (Observer) and David Thomas (Independent Adviser).

### PART ONE

#### 34. Retirement of David Thomas

The Chairman reported that this was to be David Thomas' final meeting of the Pensions Panel as he had decided to retire from his position as an Adviser to the Staffordshire Pension Fund. The Panel paid tribute to Mr Thomas and extended their thanks to him for the valuable contribution he had made during the 40+ years he had served as an Adviser to the Fund.

#### 35. Minutes of meeting held on 3 December 2019

**RESOLVED** – That the minutes of the Meeting of the Pensions Panel held on 3 December 2019 be confirmed and signed by the Chairman.

#### 36. Staffordshire Pension Fund Performance and Portfolio of Investments as at 31 December 2019

The Director of Corporate Services submitted a summary of the performance of the Staffordshire Pension Fund, together with a portfolio of the Fund's investments, as at 31 December 2019.

The Panel were informed that the Fund had a market value of £5.5 billion as at 31 December 2019. Over the quarter the Fund returned 1.1%, which was higher than the Fund's Strategic Asset Allocation benchmark return of 0.9%. The best performing asset classes relative to their benchmark, were Private Equity and Hedge Funds; whilst Private Debt was the main detractor from performance, underperforming its benchmark by 1.3%.

The Fund had outperformed its strategic benchmark over the 1, 3, 5 and 10- year periods. Annualised returns over all these periods were more than 9% 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 2019 be noted.

### **37. Responsible Investment (RI) Report Quarter 4 2019**

The Director of Corporate Services submitted a summary of activity during the quarter ended 31 December 2019 by the Fund's investment managers in fulfilment of their corporate governance and socially responsible investment obligations, including details of their voting activity on corporate resolutions for companies held in their portfolios.

The Panel noted that the Financial Reporting Council recently launched an updated UK Stewardship Code. The Code took effect from 1 January 2020 and aimed to improve stewardship practices by setting a substantially higher standard than before. Existing signatories to the Code would be required to submit a Stewardship Report that met the FRC's new reporting expectations by 31 March 2021, to continue to be listed as signatories to the UK Stewardship Code. Further information would be brought to the Panel in 2020 on the work the Fund does, to meet the criteria of the enhanced UK Stewardship Code.

The Director also submitted the quarterly report of the Local Authority Pension Fund Forum (LAPFF) and the Quarterly Stewardship Report issued by LGPS Central Limited.

The Panel noted that LAPFF had engaged with 35 Companies (on 50 engagement issues) during the quarter whereas LGPS Central, in association with their voting partners had engaged with 1561 Companies (on 2876 engagement issues).

Mr Jenkinson indicated that the quarterly RI reports issued by LAPFF and LGPS Central were very informative and that, in his view, the Fund should endeavour to publicise the information more widely. In response, the Director of Corporate Services undertook to look at how this may be achieved.

**RESOLVED** – That the content of the Responsible Investment (RI) report, including the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report (Appendix 2 to the report) and LGPS Central Limited (LGPSC) Quarterly Stewardship Report (Appendix 3 to the report), be noted.

### **38. Annual Investment Strategy for Pension Fund Cash 2020/21**

The Panel received a report of the County Treasurer seeking approval to the Staffordshire Pension Fund's ('the Fund'), Annual Investment Strategy (AIS) for the investment of internally managed cash.

They were informed that 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, inferred that 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 County Treasurer (S151), who chairs the County Council's 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 a question from Mr Jenkinson concerning the risks associated with lending to local authorities, the Director of Corporate Services indicated that market intelligence and information from the County Council's Treasury Adviser were used before such loans were agreed. Also, with the financial risks of a few local authorities being well documented in the press over recent years, a maximum lending limit of £10m per individual local authority was being introduced into the AIS this year.

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

### **39. Investment Strategy Statement**

The Panel were informed that the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which came into force in 2017, required that the first Investment Strategy Statement (ISS), which replaced the Statement of Investment Principles, to be published by 1 April 2017, kept under review and revised from time to time and at least every three years.

The Fund’s ISS was published in April 2017 and had been reviewed annually since, to better reflect the arrangements in place for asset pooling and the transfer of assets into LGPS Central Limited. The latest version of the ISS had been updated to reflect the outcome of the 2019 Actuarial Valuation, changes to the Funding Strategy Statement (FSS) and the subsequent Strategic Asset Allocation review, undertaken by Hymans Robertson and presented to the Pensions Panel in December 2019.

The Panel also noted that under Regulation 7(5), the authority must consult such persons as it considered appropriate as to the proposed contents of its investment strategy. In the formulation of the updated ISS, the Fund had consulted with its investment advisors – Hymans Robertson.

It was also noted that the ISS may need further substantial revision following the outcome of the MHCLG’s formal consultation on the Statutory Guidance on Asset Pooling in the LGPS; expected sometime in 2020. At this stage, wider consultation on the ISS might also be considered appropriate.

**RESOLVED** – (a) That the updated Staffordshire Pension Fund Investment Strategy Statement (ISS) be approved.

(b) That the potential requirement for further updates to the Investment Strategy Statement (ISS) once the outcome of the Ministry of Housing, Communities and Local Government’s (MHCLG) formal consultation on the Statutory Guidance on Asset Pooling in the LGPS is known, be noted.

### **40. Investment Consultant Objectives**

The Director of Corporate Services explained that, at its meeting on 3 December 2019, the Panel received a briefing paper from Hymans Robertson LLP (Hymans) advising of the findings of the December 2018 report of the Competition and Markets Authority (CMA), and their subsequent Order, in respect of the need for Pension Scheme Trustees to set objectives for their investment consultants. The Panel had subsequently resolved:

*(a) That the briefing paper from Hymans Robertson be agreed.*

*(b) That the potential objectives set out in the briefing paper be supported.*

*(c) That delegated authority be given to the Director of Corporate Services to finalise the objectives to be set for Hymans Robertson, the Fund’s investment*

*consultants, by 10 December 2019 in accordance with the Competition and Market Authority's requirements.*

*(d) That the finalised objectives set for Hymans Robertson, as the Fund's investment consultants, together with the detail of how those objectives will be measured be reported to the Panel at their next meeting.*

The Panel received a schedule (Appendix 2 to the report) setting out the finalised objectives set for Hymans Robertson, as the Fund's investment consultants, together with the detail of how those objectives would be measured. They noted that the Panel would be required to assess / measure and report on the performance of the Investment Consultant against the objectives set and that it was proposed that this be carried out by way of a collective annual review, with a report submitted to the Panel each year, at their March meeting.

**RESOLVED** – That the Investment Consultant Objectives provided in Appendix 2 to the report be approved and the addition of the Desired Outcomes and the proposal for the ongoing Measurement of the achievement of those objectives, be noted.

#### **41. Dates of Future Meetings**

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

12 June 2020  
14 September 2020  
1 December 2020  
2 March 2021

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

#### **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 3 December 2019**  
(Exemption paragraph 3)

**44. Staffordshire Pension Fund Performance and Manager Monitoring for the quarter ended 31 December 2019**  
(Exemption paragraph 3)

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

- a) Economic and Market Update
- b) Review of Position as at 31 January 2020
- c) Infrastructure Framework and Investing in Infrastructure

**46. Property**  
(Exemption paragraph 3)

- a) Annual Property Review and Strategy Report for 2020/21
- b) Confirmation of action taken by the Director of Corporate Services

**47. Manager Presentation - Colliers (Property)**  
(Exemption paragraph 3)

**48. Manager presentation - IFM (Infrastructure)**  
(Exemption paragraph 3)

**Chairman**