Nottinghamshire County Council

Pensions Sub-Committee

Tuesday, 16 July 2013 at 14:00

County Hall, County Hall, West Bridgford, Nottingham NG2 7QP

minutes

Nottinghamshire County Council

Meeting	PENSIONS SUB COMMITTEE
Date	Thursday, 13th December 2012 at 10.30am

membership
Persons absent are marked with `A'

COUNCILLORS

Michael J Cox (Chairman)
S Smedley MBE JP (Vice-Chairman)

	Reg Adair		Ken Rigby
	Mrs Kay Cutts		David Taylor
A	Carol Pepper	A	Gail Turner
	Sheila Place		

Nottingham City Council

A Councillor Alan Clark
Councillor Thulani Molife
A Councillor Jackie Morris

Nottinghamshire Local Authorities' Association

A Executive Mayor Tony Egginton
A Councillor Milan Radulovic MBE

Trades Unions

A Mr J Hall
Mr C King

Scheduled Bodies

A Mr N Timms

Pensioners

Mr T V Needham
Mr K Stedman

Officers in Attendance

Simon Cunnington	(Environment & Resources)
John Fairbanks	(Environment & Resources)
Chris Holmes	(Policy Planning and Corporate Services)
Sarah Marshall	(Environment & Resources)
Nigel Stevenson	(Environment & Resources)

Also in Attendance

Mr E Lambert (Investment Adviser)

MINUTES

The minutes to the last meeting of the Sub-Committee held on 21st June 2012, having been previously circulated were confirmed and signed by the Chairman.

APOLOGIES FOR ABSENCE

Apologies for absence were received from:-

Councillor Carol Pepper	-	(other County Council business)
Councillor Alan Clark	-	(other City Council business)
Councillor Jackie Morris	-	(Personal)
Executive Mayor Tony Egginton		(on other Council business)

DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None

BENCHMARKS

Consideration was given to a report concerning recommendations made by the Pensions Working Party regarding changes to the current benchmarks used by the Fund.

RESOLVED 2012/005

That it be recommended

(1) That liability-based benchmarks be set for the Fund

(2) That a strategic benchmark be set for the Fund based on the mid-point of the strategic asset allocation ranges

(3) That discussions be held with each manager regarding changes to their benchmarks within a wider review of strategic asset allocation as part of the triennial valuation process

(4) That changes be made to quarterly performance reporting in conjunction with managers to focus more on longer time frames in order to more clearly link to the Fund's long-term objectives.

NOTTINGHAM AND NOTTINGHAMSHIRE INVESTMENT FUND

A report was considered on discussions at the Pensions Working Party on progress in establishing a venture capital fund to invest in Nottingham and Nottinghamshire.

RESOLVED 2012/006

That the Nottinghamshire Pension Fund Committee be recommended to commit £10m to an Enterprise Capital Fund to be managed by the Foresight Group once approved by Capital for Enterprise.

PENSION FUND RISK REGISTER

A report was considered on the revised Pensions Fund Risk Register.

RESOLVED 2012/007

That it be recommended that the additional actions outlined in the revised risk register be considered for implementation.

PROXY VOTING

Consideration was given to a report on the voting of equity holdings in the second and third quarter of 2012.

RESOLVED 2012/008

That the report be noted.

LOCAL GOVERNMENT CHRONICLE INVESTMENT SUMMIT 2012

A report on this conference which was held on the 6th and 7th September 2012 was considered.

RESOLVED 2012/009

(1) That it be noted that attendance at key conferences is part of the Fund's commitment to ensuring those charged with decision making and financial management have effective knowledge and skills

(2) That the report on the conference be noted

LOCAL AUTHORITY PENSION FUND FORUM CONFERENCE 2012

A report on this conference held on 28th-30th November 2012 was considered.

RESOLVED 2012/010

(1) That it be noted that attendance at key conferences is part of the Fund's commitment to ensuring those charged with decision making and financial management have effective knowledge and skills

(2) That the report on the conference be noted

PROPERTY INSPECTION 2012

A report on the inspection of a number of Fund's directly held properties in Scotland was considered.

RESOLVED 2012/011

(1) That it be noted that regular property inspections are regarded as an important part of fulfilling member's fiduciary duties

(2) That the report on the property tour held on 9th and 10th October 2012 be noted

INTERNAL DISPUTE RESOLUTION PROCEDURE

Consideration was given to a report on the use of professional advisors to support the Stage 2 appeals under the Internal Dispute Resolution Procedure.

RESOLVED 2012/012

(1) That the ability to use external professional advisors to support the Stage 2 appeals process be noted

(2) That the employment of Anthony Collins Solicitors LLP to provide advice and support to the 2 nominated appointed persons be noted.

LOCAL GOVERNMENT PENSION SCHEME AUTO-ENROLMENT

A report was considered on the impact of the Government's Auto-Enrolment Initiative on the Nottinghamshire's Local Government Pension Fund.

RESOLVED 2012/013

That the report be noted.

LOCAL GOVERNMENT PENSION SCHEME – PENSIONS IMPROVEMENT PROJECT

A report was considered on the Pensions Improvement Project and the implementation of reviewed processes and new ways of working from November 2012.

RESOLVED 2012/014

That the report be noted.

The meeting closed at 12.00pm.

CHAIRMAN
M_13Dec2012

Nottinghamshire County Council

Report to the Pensions Sub-Committee

16th July 2013

Agenda Item:5

REPORT OF THE CHIEF EXECUTIVE

MEMBERSHIP AND TERMS OF REFERENCE OF THE PENSIONS SUB-COMMITTEE

Purpose of the Report

1. To report the membership and terms of reference of the Sub-Committee for 20013/14

Information and Advice

2. The Sub-Committee is asked to note that the following Members have been appointed to the Pensions Sub-Committee:-

County Councillors

Councillor Reg Adair
Councillor Chris Barnfather
Councillor Mrs Kay Cutts
Councillor Glynn Gilfoyle
Councillor Sheila Place
Councillor Darrell Pulk
Councillor Ken Rigby
Councillor Stella Smedley MBE JP
Councillor Parry Tsimbiridis

Nottingham City Council

Councillor Alan Clarke
Councillor Thulani Molife
Councillor Jackie Morris

Nottinghamshire Local Authorities' Association

Executive Mayor Tony Egginton
Councillor Milan Radulovic MBE

Trade Unions

Mr J Hall
Mr C King

Scheduled Bodies

Mr Neil Timms

Pensioner Representatives

2 Vacancies

3. Nominations were received from James Lacey and Neil Timms to be the Scheduled Bodies representative. A ballot was subseqently held and Neil Timms was elected.

4. Following the decision of the Nottinghamshire Pension Fund Committee in January 2013 nominations from pensioner representatives were sought through an article in Nest Egg and information on the Pensions website. It was decided that instead of an election the selection process would be by an Appointment Sub-Committee of the Pensions Committee consisting of Chairman, Vice-Chairman and three pensioner representatives who would be sought through the same process. The Sub-Committee would shortlist and interview potential representatives as necessary. The Appointment Sub-Committee was authorised to make the necessary appointments. Details of the outcome of the process would be provided on the Pensions website and reported in a subsequent edition of Nest Egg.

   By the closing date 2 nominations for Pensioner representative were received. It was subsequently discovered that the email link to Nestegg had not been circulated to subscribers and that the closing date for the receipt of nominations had passed before people were made aware of the process. It was therefore decided to extend the closing date for email subscribers for a further period. As a result 2 further nominations were received. No expressions of interest have been received to sit on the Appointments Sub-Committee.

   Arrangements now need to be made to interview the 4 people nominated. As no pensioners responded to the invitation to sit on the Appointments Sub-Committee it is suggested that a specific approach be made to known pensioners to enable the process to proceed.

5. The terms of reference of the Sub-Committee agreed by Council are as follows:-

   “This is a sub-committee of the Nottinghamshire Pension Fund Committee”

   1.1 The exercise of the powers and functions set out below are delegated

1.2 Responsibility for making recommendations to the Nottinghamshire Pension Fund Committee on matters relating to the administration and investment of the Pensions Fund."

Other Options Considered

6. The Appointments Sub-Committee could determine the appointments without pensioner representation but it is felt that pensioner should have a say in choosing their representatives.

Statutory and Policy Implications

7. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they have been described in the text of the report.

RECOMMENDATION

8. 1) That the membership and terms of reference of the Sub-Committee be noted

2) That arrangements be made for the Appointments Sub-Committee to meet as set out in the report.

MICK BURROWS
CHIEF EXECUTIVE

Background Papers Available for Inspection

None

Electoral Divisions Affected

9. All.

REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT

PROXY VOTING

Purpose of the Report

1. To report on the voting of equity holdings in the first quarter of 2013.

Information and Advice

2. The CIPFA *Principles for investment decision making and disclosure* require administering authorities to include a statement of their policy on responsible investment in the Statement of Investment Principles and report periodically on the discharge of such responsibilities. The Fund's statement on responsible investment states that "the Fund continues to exercise its ownership rights by adopting a policy of actively voting stock it holds".

3. The Fund retains responsibility for voting (rather than delegating to its investment managers) and votes the majority of its equity holdings in the UK, Europe, US and Japan. Voting is implemented by Pensions Investment Research Consultants (PIRC).

4. PIRC issue Shareholder Voting Guidelines each year and the latest version, to be applied from 1 March 2013, places even greater emphasis on management of shareholders' capital and remuneration policies. The key changes are highlighted below:

   - Where it is clear that a company's adherence to International Financial Reporting Standards (IFRS) has led to a failure of the accounts to provide a true and fair view, the guidelines recommend opposition to the adoption of a company's report and accounts, audit committee members and the finance director responsible for the accounts in question.
   - All new long-term incentive plans will be opposed on the grounds that they are fundamentally flawed – they are not long term, they do not incentivise and they are ineffective due to amendments and manipulation by remuneration committees.
   - Greater scrutiny will be placed on the role of remuneration consultants and, where the reporting auditor is also the remuneration advisor to the same company, the guidelines recommend opposition to the adoption of a company's annual report and accounts, the re-election of the chair of the audit or remuneration committees and the re-appointment of the auditors.

5. PIRC use these guidelines when implementing voting on behalf of the Fund.

6. During the first quarter of 2013, 99 meetings were held with a total of 1,264 resolutions. Appendix A lists all meetings during the quarter at which the Fund voted. The table below shows the number of meetings by region at which votes were cast.

2013 Q1	Meetings	Meetings with oppose/abstain votes	
UK	29	24	83%
Europe	22	20	91%
US	27	27	100%
Japan	2	2	100%
Global	19	14	74%
Total	**99**	**87**	**88%**

7. Overall there were 87 meetings (representing 88% of the total) at which 1 or more oppose or abstain votes were cast. This high proportion of meetings with oppose or abstain votes shows that the Fund continues to take it stewardship role seriously through considered exercise of its voting rights. The full analysis of resolutions is shown in the table below.

2013 Q1	UK		Europe		US		Japan		Global		Total	
For	295	74%	202	66%	221	64%	37	95%	115	66%	870	69%
Oppose	65	16%	87	28%	82	24%	2	5%	43	25%	279	22%
Abstain	41	10%	18	6%	10	3%	0	0%	16	9%	85	7%
Withhold	0	0%	0	0%	30	9%	0	0%	0	0%	30	2%
	401		307		343		39		174		1264	

8. Overall, 31% of votes were not in favour of resolutions, with Europe and the US having the highest percentage of oppose votes at 34% and 36% respectively. The UK meetings had 26% of votes not in favour. The main oppose votes were on executive pay schemes, annual reports and corporate donations.

9. The first quarter has seen the publication of preliminary findings into the UK audit market by the Competition Commission. This report has found that competition in the audit market for FTSE 350 companies is limited by the dominance of the 'Big 4' audit firms and that the auditors do not address shareholders' needs. The Commission is looking to improve the market by mandatory tendering and rotation and by giving audit committees and shareholders greater control. At the same time, a group of over 30 major European institutional investors and investor associations have also looked at this issue and released a Position Paper seeking reform of the audit market to include mandatory rotation of the audit firm every 15 years, and a cap on non-audit work at 50% of the audit fee.

10. In March the Trades Union Congress (TUC) and its two largest affiliated unions, Unite and Unison, announced the formation of a union shareholder voting group.

The group, called Trade Union Share Owners, combines the assets from its members' pension funds for voting purposes and aims to address corporate governance issues such as all-male boards, excessive director pay and bonus packages, and the non-advertisement of new director positions.

Statutory and Policy Implications

11. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

1) That the report be noted.

Report Author:
Simon Cunnington
Senior Accountant – Pensions & Treasury Management

For any enquiries about this report please contact: Simon Cunnington

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

PIRC Notts Quarterly Report Q1 2013

UK Meetings Q1 2013 Company	Meeting Date	Meeting Type
1 CABLE & WIRELESS COMMUNICATIONS PLC	09 Jan 13	EGM
2 BELLWAY PLC	11 Jan 13	AGM
3 XCHANGING PLC	14 Jan 13	EGM
4 SPIRIT PUB COMPANY PLC	15 Jan 13	AGM
5 FENNER PLC	16 Jan 13	AGM
6 DIPLOMA PLC	16 Jan 13	AGM
7 ABERDEEN ASSET MANAGEMENT PLC	17 Jan 13	AGM
8 MARSTONS PLC	22 Jan 13	AGM
9 WH SMITH PLC	23 Jan 13	AGM
10 SMITHS NEWS PLC	24 Jan 13	AGM
11 REXAM PLC	24 Jan 13	EGM
12 SCOTTISH INVESTMENT TRUST PLC	25 Jan 13	AGM
13 IMPERIAL TOBACCO GROUP PLC	30 Jan 13	AGM
14 LONMIN PLC	31 Jan 13	AGM
15 MITCHELLS & BUTLERS PLC	31 Jan 13	AGM
16 COMPASS GROUP P	07 Feb 13	AGM
17 THOMAS COOK GROUP PLC	07 Feb 13	AGM
18 TUI TRAVEL PLC	07 Feb 13	AGM
19 PARAGON GROUP OF COS PLC	07 Feb 13	AGM
20 UNITED DRUG PLC	12 Feb 13	AGM
21 CABLE & WIRELESS COMMUNICATIONS PLC	28 Feb 13	EGM
22 SAGE GROUP PLC	01 Mar 13	AGM
23 ASIAN TOTAL RETURN INV COMPANY PLC	15 Mar 13	EGM
24 WILLIAM HILL PLC	18 Mar 13	EGM
25 RESOLUTION LTD	20 Mar 13	EGM
26 ST MODWEN PROPERTIES PLC	27 Mar 13	AGM
27 SVG CAPITAL PLC	27 Mar 13	AGM
28 RWS HOLDINGS PLC	11 Feb 13	AGM

Europe Meetings Q1 2013 Company	Meeting Date	Meeting Type
1 RANDSTAD HOLDINGS NV	16 Jan 13	EGM
2 THYSSENKRUPP AG	18 Jan 13	AGM
3 SIEMENS AG	23 Jan 13	AGM
4 NOVARTIS AG	22 Feb 13	AGM
5 INFINEON TECHNOLOGIES AG	28 Feb 13	AGM
6 ROCHE HOLDING AG	05 Mar 13	AGM
7 BANCO BILBAO VIZCAYA ARGENTARIA SA (BBVA)	14 Mar 13	AGM
8 NORDEA BANK AB	14 Mar 13	AGM
9 DANSKE BANK AS	18 Mar 13	AGM

10 SGS SA	19 Mar 13	AGM
11 NOVO NORDISK A/S	20 Mar 13	AGM
12 SWEDBANK AB	20 Mar 13	AGM
13 SVENSKA HANDELSBANKEN	20 Mar 13	AGM
14 ABERTIS INFRAESTRUCTURAS SA	20 Mar 13	AGM
15 GIVAUDAN SA	21 Mar 13	AGM
16 SKANDINAVISKA ENSKILDA BANKEN (SEB)	21 Mar 13	AGM
17 IBERDROLA SA	22 Mar 13	AGM
18 BANCO SANTANDER SA	22 Mar 13	AGM
19 UCB SA/NV	25 Mar 13	EGM
20 ELECTROLUX AB	26 Mar 13	AGM
21 EADS NV	27 Mar 13	EGM
22 RANDSTAD HOLDINGS NV	28 Mar 13	AGM

US Meetings Q1 2013

Company	Meeting Date	Meeting Type
1 WALGREEN CO.	09 Jan 13	AGM
2 INTUIT INC.	17 Jan 13	AGM
3 MICRON TECHNOLOGY INC	22 Jan 13	AGM
4 JOHNSON CONTROLS INC	23 Jan 13	AGM
5 COSTCO WHOLESALE CORP.	24 Jan 13	AGM
6 BECTON DICKINSON & CO	29 Jan 13	AGM
7 VISA INC	30 Jan 13	AGM
8 MONSANTO CO.	31 Jan 13	AGM
9 EMERSON ELECTRIC CO.	05 Feb 13	AGM
10 ROCKWELL AUTOMATION INC.	05 Feb 13	AGM
11 ACCENTURE PLC	06 Feb 13	AGM
12 ROCKWELL COLLINS INC	07 Feb 13	AGM
13 DEERE & CO.	27 Feb 13	AGM
14 APPLE INC	27 Feb 13	AGM
15 APPLIED MATERIALS INC	05 Mar 13	AGM
16 QUALCOMM INC.	05 Mar 13	AGM
17 INTERNATIONAL GAME TECHNOLOGY	05 Mar 13	AGM
18 TYCO INTERNATIONAL LTD	06 Mar 13	AGM
19 WALT DISNEY CO.	06 Mar 13	AGM
20 TE CONNECTIVITY LTD	06 Mar 13	AGM
21 FRANKLIN RESOURCES INC	13 Mar 13	AGM
22 ANALOG DEVICES INC.	13 Mar 13	AGM
23 THE ADT CORP.	14 Mar 13	AGM
24 AGILENT TECHNOLOGIES INC	20 Mar 13	AGM
25 HEWLETT-PACKARD CO	20 Mar 13	AGM
26 STARBUCKS CORP.	20 Mar 13	AGM
27 VIACOM INC. 21 M	21 Mar 13	AGM

Japan Meetings Q1 2013		
Company	**Meeting Date**	**Meeting Type**
1 OTSUKA SHOKAI CO LTD	27 Mar 13	AGM
2 CANON INC	28 Mar 13	AGM

Global Meetings Q1 2013		
Company	**Meeting Date**	**Meeting Type**
1 EXOR SPA	15 Jan 13	EGM
2 DEOLEO SA	25 Jan 13	EGM
3 TUI AG	13 Feb 13	AGM
4 ZON MULTIMEDIA SERVICOS DE	07 Mar 13	EGM
5 SANMINA-SCI CORP	11 Mar 13	AGM
6 FONDIARIA SAI SPA	13 Mar 13	EGM
7 OUTOKUMPU OY	18 Mar 13	AGM
8 EXOR SPA	19 Mar 13	EGM
9 CIENA CORP.	20 Mar 13	AGM
10 BANKINTER	21 Mar 13	AGM
11 RAUTARUUKKI OY	21 Mar 13	AGM
12 VESTAS WIND SYSTEMS AS	21 Mar 13	AGM
13 HUFVUDSTADEN AB	21 Mar 13	AGM
14 FABEGE AB	21 Mar 13	AGM
15 ELISA CORP	25 Mar 13	AGM
16 SULZER LTD	27 Mar 13	AGM
17 AGEAS NV	28 Mar 13	EGM
18 NOBEL BIOCARE HOLDING AG	28 Mar 13	AGM
19 EXOR SPA 20 Mar	20 Mar 13	EGM

Nottinghamshire County Council

Report to Pensions Sub-Committee

16 July 2013

Agenda Item:7

REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT

FUND BENCHMARKS

Purpose of the Report

1. To inform members of the new Fund benchmarks.

Information and Advice

2. The Fund's benchmark arrangements have been under consideration following the training session held at the meeting of this Sub-Committee on 21 June 2012. Proposals for change were first considered at the Pensions Working Party meeting on 30 October 2012 and then further at the Pensions Sub-Committee meeting on 13 December 2012 before being referred for approval by the Nottinghamshire Pension Fund Committee on 28 January 2013. Relevant extracts from the Working Party report are attached for information, particularly for members not involved in the earlier discussions.

3. The Pension Fund Committee resolved:
   - That a liability-based benchmark be set for the Fund
   - That a strategic benchmark be set for the Fund based on the mid-point of the strategic asset allocation ranges
   - That discussions be held with each manager regarding changes to their benchmarks within a wider review of strategic asset allocation as part of the triennial valuation process
   - That changes be made to quarterly performance reporting in conjunction with managers to focus more on longer time frames in order to more clearly link to the Fund's long-term objectives.

4. Initial discussions have been held with each of the Fund's main managers. As a result, the managers have been asked to include more on long term performance in their quarterly reporting and to focus their presentations on more strategic issues.

5. Each manager has also made suggestions for changes to their benchmarks and these will be considered further by Working Parties during 2013. The benchmark for the In-House portfolio has been amended to reflect the WM Local Authority average rather than the CAPS (Mellon) consensus on the basis that performance

reporting is now provided by WM Company and this is a more appropriate comparison for a local authority fund.

6. The liabilities of the Fund are index-linked and stretch out over several decades. The liability-based benchmark aims to represents the closest match to changes in the value of liabilities and is therefore composed of a long dated index-linked gilts index. It is important to note that this would not be used to formulate an investment strategy for the Fund (as the Fund is not approaching maturity and the funding level is not above 100%) but would give an indication of whether the agreed investment strategy is being successful in meeting the funding objective.

7. The investment strategy is decided following the outcome of the triennial valuation as the asset allocation most likely to produce the returns required. The Fund has agreed asset allocation ranges for each major asset class as shown below.

Equities	55% - 75%
Property	5% - 25%
Bonds	10% - 25%
Cash	0% - 10%

8. The strategic benchmark is constructed from the mid-point of each range (with the exception of cash which needs to be set at 2.5% in order to add up to 100%) with each asset class given an appropriate high level index. This strategic benchmark will enable an assessment of the whole Fund performance, in particular the impact of decisions to under or over-weight asset classes relative to the benchmark. A full presentation will be given to the next Pensions Sub-Committee on the Fund's performance against this benchmark in 2012/13.

9. The whole Fund benchmarks are set out below.

Liability Based Benchmark	100.0%	FTSE UK Gilts IL > 5 Yrs
Strategic Benchmark		
Equities (inc private equity)	65.0%	FTSE All World
Property	15.0%	IPD annual universe
Bonds	17.5%	FTSE UK Gilt All Stock
Cash	2.5%	LIBID 7 Day
	100.0%	

Statutory and Policy Implications

10. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

1) That the report be noted.

Report author:
Simon Cunnington
Senior Accountant – Pensions & Treasury Management

For any enquiries about this report please contact: Simon Cunnington

EXTRACTS FROM REPORT TO PENSIONS WORKING PARTY
30 OCTOBER 2012

BENCHMARKS

Purpose of the Report

1. To outline the purposes of benchmarks and initiate discussion on current benchmarks used by the Fund and suggestions for change.

Information and Advice

2. A benchmark is defined as a standard by which something can be measured or judged. Benchmarks perform two main functions for a pension fund – firstly to define and evaluate the overall performance of the Fund; secondly to set targets for individual fund managers against which their performance will be measured.

3. The Fund is currently split into five main portfolios:
    - In-house global equities
    - Schroders global equities
    - Kames bonds
    - Aberdeen direct UK property
    - Various pooled equity, property and alternative investments

4. Each main manager has a specific benchmark made up of relevant market indices with a specified target for outperformance. The current benchmark arrangements are shown in Appendix A. The investments within the last portfolio mostly compare performance with a particular market index but, as these are largely pooled investments, the Fund has little control over these benchmarks. The overall performance of the Fund is currently compared to a composite benchmark created by combining the various benchmarks used within each portfolio.

5. Appendix B shows extracts from the Fund's Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP). According to the FSS the long term objective of the Fund is to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities in order to ensure that liabilities can be met and employers' contribution rates can be kept as nearly constant as possible. It is recognised that investment returns have a valuable role in achieving these aims.

6. The results of the 2010 valuation show the liabilities to be 84% covered by current assets. Future deficit contributions are set to recover the deficit over a period of up to 20 years. However, positive investment returns can help to reduce the deficit and mitigate the impact on employers. For this reason the current strategic asset allocation favours growth assets (equities and property) over defensive assets (bonds and cash).

7. In carrying out the triennial valuation, the actuaries make allowance for the expected long term returns from the Fund's investments. At the 2010 valuation the long term expected returns from the main asset classes were:

Equities/absolute return funds	7.5%
Gilts	4.5%
Bonds & Property	5.6%

Actual investment returns are incorporated into the next valuation as either a positive or negative inter-valuation factor.

8. The current composite Fund benchmark does not link directly to the Fund's long term objectives. The strategic benchmark should have an explicit link to the liabilities and make clear the long term nature of the objective. It is suggested therefore that a strategic benchmark be set for the Fund that incorporates the expected long term returns from the various asset classes. This would be reviewed and amended as appropriate after each triennial valuation. The strategic asset allocation is then determined with this benchmark in mind.

9. The benchmarks set for each manager have a dual role. They enable comparison of performance to market indices but they also influence the investment approach of the manager by effectively setting limits over the assets in which they can invest. The performance target also gives an indication of the level of risk that is acceptable. The benchmarks set for each manager should reflect the risk and return expectations arising from the strategic asset allocation.

10. The current benchmarks for the In-House portfolio and for Schroders include reference to the CAPS (Mellon) consensus. These use the average asset allocations from the BNY Mellon universe of funds (the average allocations as at 31 March 2012 are shown in Appendix B). The Fund used to use BNY Mellon for performance measurement but has recently switched to WM as this more closely reflects LGPS funds. If it is considered appropriate to continue using average allocations as a means of setting benchmarks, it is recommended that these be based on WM Local Authority average allocations.

11. There are question marks, however, over using consensus or average allocations to drive performance. Although it can be useful to compare to other funds, performance benchmarks should link to the Fund's particular circumstances rather than those of an average fund. An alternative would be to set a benchmark based on the proportion of each region in the global stock market. These weightings could be adjusted according to Members' views on particular markets.

12. The overall objective of the Fund is very long term in nature but regulations require that performance is monitored on a quarterly basis. However, the guidance on compliance with the revised Myners Principles suggests that 'although returns will be measured quarterly, a longer timeframe (typically 3 – 7 years) should be used to assess the effectiveness of Fund management arrangements'. The Fund has always believed in looking at a manager's long term track record when concerns arise over performance but it is suggested that focusing quarterly reporting more on longer term performance (for example 1 and

3 years) would highlight this belief and also link more clearly to the long term objective of the Fund.

<u>In-House</u>
Benchmark:
CAPS (Mellon) consensus equities

<u>Schroders</u>
Benchmark:

UK equities	57%
CAPS (Mellon) consensus overseas equities	42.5%
Cash	0.5%

Relevant indices for both In-House and Schroders portfolios:

		Average at 31/3/12	
Equity Region	**Index**	**CAPS**	**WM LA**
UK	FTSE All-Share	47.3%	48.8%
US	FTSE AW US	18.6%	19.5%
European	FTSE WI Europe ex UK	15.9%	11.4%
Japanese	FTSE AW Japan	6.2%	5.0%
Pacific ex Japan	FTSE AW Developed Asia Pacific ex Japan	6.9%	7.4%
Emerging Markets	MSCI Emerging Market	4.6%	7.3%
Cash	LIBID 7 day	0.5%	0.5%

<u>Kames</u>
Benchmark:

FTSE-A Gilt All-Stock	40%
Merrill Lynch Sterling Non-Gilt All-Stock	30%
Citigroup WGBI ex-UK (unhedged)	20%
FTSE-A Index-linked Gilt over 5 years	10%

Allocation ranges:

UK Government Bonds	10-70%
UK Corporate Bonds	10-50%
International Government Bonds	0-40%
(including 20% International corporate bonds)	
UK Index-Linked Bonds	0-30%
Cash	0-15%

<u>Aberdeen</u>
Benchmark:
IPD Annual December Universe

Extracts from the Funding Strategy Statement

3.1 **The aims of the fund are to:**

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due
- maximise the returns from investments within reasonable risk parameters

5.1 To meet the requirements of the Regulations the Administering Authority's long term funding objective is for the Funds to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing basis including allowance for projected final pay.

5.2 The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix A. Underlying these assumptions are the following two tenets:

- that the Scheme and the major employers are expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

6.1 The investment policy of the funds is set out in the Statement of Investment Principles (SIP). In assessing the value of the Scheme's liabilities in the valuation, the funding basis sets the discount rate to value the liabilities as the expected investment return from the agreed investment strategy taking into account the investment strategy adopted by the Scheme, as set out in the SIP.

6.2 The results of the 2010 valuation in respect of the Nottinghamshire County Council Pension Fund show the liabilities to be 84% covered by the current assets, with the funding deficit of 16% being covered by future deficit contributions.

The current benchmark investment strategy, as set out in the SIP, is:

Equities	55% - 75%
Property	5% - 25%
Bonds	10% - 25%
Cash	0% - 10%

6.3 The Fund will be invested on a core/satellite approach, with approximately 40% of the fund managed in-house on an enhanced index-tracking basis, and the balance with specialist managers who are given targets for out-performance against benchmarks.

Extracts from the Statement of Investment Principles

5.1 Contribution income currently exceeds benefit payments and a recent investment strategy review, carried out by the Fund's actuaries, found that this is likely still to be the case in 20-30 years time. This makes it unlikely that assets will have to be realised in order to meet pension benefits and allows the Fund to implement a long term investment strategy.

5.2 The agreed asset allocation ranges are therefore:-

Equities	55% to 75%
Property	5% to 25%
Bonds	10% to 25%
Cash	0% to 10%

These ranges will be kept under regular review. If it appears likely that these limits might be breached because of market movements, reference will be made to a meeting of the Pensions Working Party for advice. The proportions are those aimed at achieving best returns whilst minimising overall variability in the future employers' contribution rates. These have been confirmed as appropriate by the investment strategy review.

5.3 In carrying out the triennial valuation, the actuaries make allowance for the expected long term additional returns from the Fund's investments relative to a portfolio of Government bonds. The assumed level of out-performance at the most recent valuation was 2.3% per annum. Actual returns will be incorporated into each actuarial valuation.

5.4 The policy of the Fund will be to treat the equity allocation as a block aimed at maximising the financial returns to the funds (and thus minimising the employers contribution) consonant with an acceptable level of risk. The block of Bonds, Property and Cash is aimed at lowering overall risk (at the cost of anticipated lower return). The Fund will vary between the asset classes according to market circumstances, relative performance and cash flow requirements.

Nottinghamshire County Council

Report to Pensions Sub-Committee

16 July 2013

Agenda Item:8

REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT

NAPF LOCAL AUTHORITY CONFERENCE 2013

Purpose of the Report

1. To report on the NAPF Local Authority Conference 2013.

Information and Advice

2. The NAPF Local Authority Conference 2013 was held on 20th to 22nd May 2013 at the Cotswold Water Park Four Pillars Hotel. In accordance with prior approval and as part of the Fund's commitment to ensuring those charged with decision-making and financial management have effective knowledge and skills, the conference was attended by Nigel Stevenson (Group Manager – Financial Strategy & Compliance) and Simon Cunnington (Senior Accountant – Pensions & Treasury Management). No members of the Sub-Committee attended as the date of the conference fell before the first meeting of the newly constituted Nottinghamshire Pension Fund Committee following the County Council elections in May 2013.

3. ***"Sometimes things become possible if we want them bad enough"***
   This fringe session, preceding the main conference and hosted by John Finch from JLT Benefit Solutions, focused on a survey undertaken by JLT of local authorities that were attending the conference. The survey asked about the relative importance of various factors over the next 10 years.

4. Mr Finch seemed surprised that achieving 100% funding was seen as unimportant, as this is top priority for virtually all private sector schemes. This reflects the statutory nature of the Local Government Pension Scheme (LGPS) and the covenant strength of the major employers. Positive cashflow was viewed as very important to respondents and these two views remained unchanged throughout the 10 year survey period. There was a major change, however, in the importance of greater collaboration between funds. This was seen as unimportant currently but became the most important within 5 years. Some respondents may have changed their current view on this issue over the course of the conference.

5. Mr Finch finished the session with JLT's forecasts of returns over the next 10 years. Highest returns were expected from private equity, emerging market equities, developed market equities and property (ranging from 8.5% to 7% pa) although he believes that EM growth will increasingly be accessed through

developed market equities. Lowest returns were expected from Gilts, both traditional and index-linked (1.7% to 2.4% pa).

6. ***The new LGPS***
The main conference began with Brandon Lewis MP, current Minister for Local Government. He outlined the rationale for the ongoing reforms to the LGPS and stated that consultation will shortly be launched on the administration and governance elements of these changes. He praised the enviable record of administration within the LGPS but pointed out that little has changed since 1974. Investment management and administration currently costs £500m per year and most agree that this needs to reduce.

7. Mr Lewis stated that we need a more complete assessment of funding levels and deficits and suggested the possibility of moving towards a cashflow model of funding. He also called for a 'root and branch' review of the investment regulations. His most contentious statements, however, were regarding the possibility of fund mergers where he outlined a call for evidence but stated that he was 'not wedded to having 89 funds'. This review would form part of the workload of the new Shadow Pensions Board, set up as part of the changes to governance introduced in the Public Service Pensions Act 2013.

8. ***Implementing LGPS 2014: from here to go-live***
This session began with Chris Megainey, Deputy Director – Workforce, Pay & Pensions at the Department for Communities and Local Government (in his own words, the new Terry Crossley), apologising for the new regulations not yet being finalised. A consolidated set of regulations was expected soon with consultation to begin in June. This, however, still wouldn't include the governance elements or anything on Fair Deal.

9. Rodney Barton, from the West Yorkshire Pension Fund, followed with a pragmatic practitioner's viewpoint. The new scheme will need more detailed information in order to calculate benefits and will include protected rights that need to be managed for many years. Under a CARE scheme, accurate data will be needed each year, rather than just at retirement, and annual benefit statements will become increasingly important to enable members to challenge data accuracy. System changes will be key, but the later the regulations are finalised the more difficult these changes will be to implement. Staffing resources will become even more stretched and those authorities who have cut staff may find themselves with serious difficulties.

10. The session finished with Brian Strutton from the GMB union who concentrated on the governance changes under the Public Service Pensions Act 2013. Although these changes won't be fully implemented until 2015, a shadow Scheme Advisory Board is being set up now. This board is responsible for providing advice to the Minister and will be involved in recommending employee contribution levels and other cost measures under the new scheme. Its members will include employer representatives (from the LGA), member representatives (from the unions) and advisory members from administering authorities and actuarial firms.

11. ***All Change: employer security and the new LGPS***

The final session of the first morning featured three speakers discussing the issue of employer risks within the new LGPS. Clillford Sims from Squire Sanders outlined the ‘tools’ to manage employer risk: security in case of failure, early warnings and investment segregation. Mark Packham from PwC outlined the private sector approach where employer covenant was evaluated in detail at each valuation and monitored in between. This is important as the strength of covenant can affect the deficit and the additional cash contributions required.

12. Kevin McDonald from the Essex Fund talked through their approach to assessing employer risk following the failure of two employers. The fund’s actuary, Barnett Waddingham, had carried out an assessment of each employer and plotted these on a risk chart to give a clear indication of which employers were most at risk. This allowed early discussions to be held with these employers to help prevent further failures and maximise income to the fund.

13. ***The 2013 valuation: the story so far***
Conference favourite, Ronnie Bowie, filled the after-lunch slot with a look at the expected results from the 2013 triennial valuation. Since 2010, assets have increased but bond yields have fallen so the funding level overall is expected to have reduced from 75% to 70%. The new scheme will reduce the cost for most employers by up to 2% but some employers, particularly with a higher proportion of older employees, will face *increases* of up to 4%. Any employer with a funding level below 60% will need additional cash contributions.

14. ***Balancing the books: financial management in the LGPS***
Brendan Mullkern and Clive Lewis explained the Universities Superannuation Scheme’s (USS) financial management plan. The USS is a multi-employer scheme but with a common contribution rate across all employers. Their plan has three strands which all interlink – employer covenant, investment strategy and funding. The plan involves detailed assessment of the major employers’ strength and also considers downside risks, giving options to address these if they arise.

15. ***Investing for the future: what needs to change?***
Nigel Keogh from CIPFA was clear in his view that the LGPS investment regulations need to be revised further. The issues of main concern are the investment limits and the lack of clarity over definitions, particularly derivatives. The former predated other risk measures that have since been put in place and so are now out of date. The latter has lead to funds incurring unnecessary costs on legal advice.

16. Nick Buckland from Dorset gave an example of the regulations increasing costs. Following a strategic review of asset allocation, the Dorset fund decided to use inflation hedging. This involved derivatives but, as it was believed these were not allowed in a segregated mandate under the regulations, a special pooled fund had to be created.

17. ***Too big? Too Small? Just Right?***
The final session of day one was a lively debate between Edmund Truell, new chairman of the LPFA, and Nicola Mark, Head of the Norfolk Pension Fund. Mr Truell began by extolling the virtues of fund mergers, suggesting there should be

one fund for London and 5 regional funds for the rest of the country. This would have a number of key benefits including:

- Access to better liability management
- Economies of scale in investment management and administration
- Access to long term investment opportunities
- Direct investment in infrastructure and private equity
- Reducing external advisers and increasing in-house expertise

18. Nicola Mark reminded delegates that Hutton had recommended against fund mergers and that last year's minister had clearly said 'no mergers'. She contrasted the long term nature of the LGPS with the short term tenure of ministers in charge of it. There appears to be a wider agenda and a desire to hurry through changes but this forgets the many efforts that are already being made, with little central support, to improve the cost and efficiency of the administration of the LGPS.

19. ***Can we afford it?***
Day two began with David Smith, an economist from the Sunday Times. As we approach the 6th anniversary of the financial crisis, world trade has recovered and is growing, driven mainly by emerging economies. Developed economies still have a debt hangover and are recovering much more slowly than in previous recessions. The Eurozone in particular is struggling as the crisis has added to the area's existing fiscal problems.

20. Mr Smith gave his outlook including:
    - Low interest rates until 2016
    - Gilt yield are unsustainably low but depends on quantitative easing (QE)
    - May be more QE but likely to be more radical options from the new Bank of England governor
    - Inflation is higher than earnings growth so consumer recovery will be slow

21. ***Investing for success: chasing return in a low growth world***
Roy Nolan from LB Newham and Peter Wallach from Merseyside gave their views on options for investment returns apart from traditional equities. These included 'smart beta' funds that invest passively against non-market cap weighted indices and 'low volatility' funds where stocks are chosen based on their risk-return profiles. The latter had been more positive than the former. The Merseyside fund also includes an 'opportunities' portfolio that gives flexibility to make investments that don't fit within the normal classes.

22. ***Driving excellence: good governance in the LGPS***
Andrew Warwick-Thompson, the Pensions Regulator (TPR) outlined how he is engaging with the LGPS in advance of the changes to be brought in by the Public Service Pensions Act 2013. TPR has been the regulator of all work-based pensions since the Pension Act 2004 but has previously given no real attention to the LGPS. This will change in 2015 when TPR gains the specific role of oversight of administration and governance. In advance, TPR is building a team and is likely to publish codes and guidance covering knowledge and understanding, conflicts, records and controls.

23. ***Short-term politics and long-term decision making***
The conference concluded with Daniel Finkelstein, Executive Editor of The Times who presented some theories to help politicians. He claimed that most people don't care about politics and often don't understand it. But this shouldn't lead to a cynical view – what matters to people is the real things: how much better off they are and when; their experience of services. Most have a desire to fit-in, preferring to deal with those who are similar. He ended on a note of caution warning that most people are happy to put in more than they get out but feel aggrieved if others are getting something for nothing.

Statistical and Policy Implications

24. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

1) That it be noted that attendance at key conferences is part of the Fund's commitment to ensuring those charged with decision-making and financial management have effective knowledge and skills.
2) That the report be noted

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Background Papers
None