PENSIONS COMMITTEE, 05.07.10

Present: Councillor Keith Greenly-Jones (Chairman)
Councillor John W. Jones (Vice-chairman).

Councillors Trevor Edwards, John G. Jones, J.R. Jones.

Co-opted Member:- Councillor Margaret Lyon (Conwy County Borough Council).

Officers:- Dilwyn Williams (Corporate Director), Dafydd Edwards (Head of Finance Department) and Gwyn Parry Williams (Committee Officer).

Apologies: Councillor W. Tudor Owen (Gwynedd Council) and Councillor Tom Jones (Isle of Anglesey Council)

1. CHAIRMAN

RESOLVED to re-elect Councillor Keith Greenly-Jones as Chairman of the Committee for 2010/11.

2. VICE-CHAIRMAN

RESOLVED to elect Councillor John W. Jones as Vice-chairman of the Committee for 2010/11.

3. DECLARATION OF PERSONAL INTEREST

No declarations of personal interest were received from any member present.

4. MINUTES

The Chairman signed the minutes of the previous meeting of this committee held on 29 March 2010, as a true record.

5. COMPASS

Submitted – the report of the Corporate Director stating that he had reported to the present committee at its meeting on 15 December 2009 that Hymans Robertson had developed a new product called Compass which would enable us to take a longer-term view of the fund's prospects when deciding upon the employers rate to be adopted after the valuation that was currently under way. In that report the committee was reminded that the current valuation was likely to show a significant fall in the level of assets against the commitments because of the market conditions.

Received recently was the Navigator report for the fund as it was on 1 April 2010 which showed this position quite clearly.

The committee agreed that a Compass report should be commissioned for the fund to see whether there was a way to stabilise employer contributions, whilst at the same time

complying with the need to ensure the long term solvency of the fund and to take note of the relevant risks associated with the options available. The report was accepted and the Corporate Director led the members through the report, drawing particular attention to the following issues -
a) That the focus of the report was to assess Stability, Affordability, Supervision and Prudence associated with the eight scenarios referred to in the report.
b) That 5000 possible results were calculated for the eight scenarios over a period of 21 years. The effects of those projections were then noted against the four assessment factors measured against them.
c) Stability – with no stability in place (namely scenarios 1 and 6), there was potential for amendment in each formal valuation. In scenarios 2, 4 and 7, the range of amendments in contribution rates between valuations would decrease. Scenarios 3, 4 and 8 showed no variation because the contribution rates had been set on the present level.
ch) Affordability – scenarios 3, 5 and 8 showed no variation because the contribution rates had been set on different levels and theoretically without considering other factors, they were affordable since the contribution level would be as it was currently. Options 2, 4 and 7 restricted the absolute levels of possible contributions, whilst options 1 and 6 led to situations where the employer's rate was not affordable.
d) Supervision – scenario B was the most secure as it offered more security in the long term with less risks. However, scenarios 1, 2, 4, 5 and 7 were all similar in terms of the risks of having the fund falling too low to be recovered in terms of the budget level. Options 3 and 8 were too extreme so that it would be difficult to chose them without presenting an unacceptable element of risk.
dd) Prudence – the actuary would need to satisfy professional requirements with regards to carrying out a valuation on a prudent basis. Scenarios 3, 5 and 8 showed there was a strong possibility that the payable contributions would not be attested prudent and would therefore carry too much risk to be implemented.

He displayed the relative risk levels of all those scenarios in the form of a table which noted that if we were to meet the objective of obtaining stability, that only scenarios 2, 4 or 7 should be considered in light of the risks involved with the others. However, scenario 7 meant a reduction to 60% equity which would decrease the long term returns for the fund.

He noted that the next step in the process would be to contact relevant employers to discuss the relevant employer contribution policy to be adopted by the Council, and even in doing this, the committee would be obliged to form an opinion on which options would be acceptable as well as any options which would be unacceptable. The committee would also be obliged to view the situation in terms of which employers would be eligible to take advantage of this long term process.

In relation to the Compass report's results, the actuary noted that the stabilisation mechanism was only applicable to long term employers who have certainty of covenant such as councils. The Committee would also have to consider whether any other employers should be extended this facility, as well as what they intended to do regarding those other employers for whom this process was not appropriate.

RESOLVED to consult with employers on the basis, unless other matters become apparent during the consultation, that the committee deems it would be willing to consider -
i) Scenario 2 which would allow contributions to be frozen until 2011 and then to stabilise where contributions would rise no more than 1% and fall no more than 0.5% per annum from 2011.

Scenario 4 which would allow contributions to stabilise where contributions would rise no more than 0.5% per annum, and fall no more than 0.5% per year from 2011.

6. INVESTMENT POLICY

Submitted – the report of the Corporate Director stating that the Council Leader had received a letter from the Arfon Peace and Justice Group asking the committee to confirm if it had investments in arms companies and to have discussions regarding the possibility of not investing in such companies. The letter also asked the Committee to refrain from investing in companies which invest in Israel.

It was noted that the issue of ethical investment had been discussed by the Committee on several occasions, and was last discussed in December 2007 when it was decided to be more cautious before taking formal steps in this direction, to ask the Hymans Company to report on the latest situation regarding ethical investment, and specifically whether there was any evidence regarding the returns of ethical investment funds, and that the report be submitted to the Committee.

Since then, a report had been received from Hymans Robertson which referred to delivering effective active ownership but which did not go to the core of ethical investment.

It was noted that the main priority was to ensure the best returns for the fund's members. The general opinion was that it would be inappropriate to go against the general duty to ensure the best returns and to consider investments individually.

RESOLVED to inform the Arfon Peace and Justice Group that the fund had delegated to fund managers the responsibility for taking social, environmental and ethical matters into account when assessing the financial potential and suitability of investments. Investment managers must work positively with companies in order to promote forward-looking social, environmental and ethical standards, rather than adopting a policy of negative screening of stocks.

7. MONITORING INVESTMENT MANAGERS

Submitted – the report of the Corporate Director stating that the Investment Panel had recently had experience of monitoring Fund Managers, only for them to repeat positions which they had already given at previous meetings due to the fact that their outlook hadn't changed over a relatively short period. Consequently, questions were raised as to whether the most effective use of time was being made in meeting fund managers so often, and whether the time could be used more efficiently by meeting particular managers less frequently with more use of the time available to discuss asset allocations and general performance issues. Hymans Robertson's view on the matter was sought, and at the last meeting of the Investment Panel they had submitted a written report, noting various options.

It was noted that members, during the initial discussions, were of the opinion that the current arrangement of face to face meetings with the four active fund managers (Capital, Fidelity, Insight, UBS) should be amended to have two meetings in one quarter and two in the next, with the passive manager and the equity manager to be met once a year. The performance of all managers would be considered quarterly, and if a manager was causing concern to the Council, then that manager would be met more frequently. If the Committee wished to take action in accordance with this option, then all fund managers would not be available for the annual general meeting, and should this be the case, it would be necessary to consult the employers on the matter, but this was not foreseen as a stumbling block.

It was also suggested that it would be beneficial to hold occasional meeting with the Blackrock and Partners Group in London.

A member enquired if there was any purpose in conducting the Annual Meeting of the Pension Fund in light of the poor representation had in meetings. In response, the officer informed the committee that the situation could be reviewed during the next two years.

RESOLVED to accept option 1, which is to conduct meetings with the four active fund managers (Capital, Fidelity, Insight and UBS) every six months and with the passive manager and equity manager once a year.

8. TACTICAL ASSET ALLOCATION

Submitted – the report of the Corporate Director stating that in November 2008, the Investment Panel was advised by Hymans Robertson that it might be beneficial to take advantage of increasing credit spreads and to switch its investments from gilts into corporate bonds. This issue was pursued at a further meeting of the Panel in February 2009, and as a result of that meeting, the Panel decided to make a tactical asset allocation switch from gilts into corporate bonds in order to take advantage of increasing spreads in interest rates. The Investment Panel had received a report from Hymans Robertson at its last meeting on 11 May 2010 noting that the fund had profited by £4.9m as a result of this action.

It was noted that the Council were fortunate that the peak of this opportunity lasted from around December 2008 to April 2009, which was the period it took to translate an idea into action. Had the peak lasted for a lesser period, then the opportunity to switch might have been lost, which raised the question as to whether a smoother process would have to be ensured for any future opportunities that may arise. Hymans Robertson had given advice on the matter and members were given details of it. Bearing in mind the advice given by Hymans Robertson and that the Council's Constitution already delegated the right to take action in relation to the practical effects of the Pensions Committee's investment strategy, he recommended that for any further opportunities which the Investment Advisers (Hymans Robertson) may identify, the Committee should delegate action in relation to tactical allocation switches to him, the Corporate Director, in consultation with the Head of Finance and the Investment Panel (or the Chairman and Vice-chairman of the Committee if consultation with the panel is not possible).

In accordance with Hymans' advice the authorised ranges within which action can be taken will need to be identified when the Funding Strategy Statement will be established as a result of the valuation later on this year.

RESOLVED to delegate the right to act in relation to tactical allocation switches to the Corporate Director responsible for the Pension Fund, in consultation with the Head of Finance and the Investment Panel (or the Chairman or Vice-chairman of the Committee if consultation with the Panel is not possible), for any further opportunities which the Investment Advisers (Hymans Robertson) may identify for the future.

9. STATEMENT OF INVESTMENT PRINCIPLES (SIP)

Submitted – the report of the Head of Finance stating that the Local Government Pension Scheme (Management and Investment of Funds) 2009 (SI. 2009 No. 3093) came into force on 1 January 2010. One of the requirements of the regulations was that Pension Scheme administering authorities prepare, maintain and publish a Statement of Investment Principles (SIP). These regulations had made a few changes to the requirements in relation to he SIP.

The officer reported that since 2002, it had been a requirement for administering authorities to state in their SIP, the extent to which they complied with Myners' ten principles of investments, and members were given details relating to them. In 2007/08, HM Treasury had commissioned the National Association of Pension Funds (NAPF) to undertake a review of Myners' ten principles and the outcome of the review was that the principles should be cut from ten down to six. Members were given details. Following a consultation period in 2009, the six principles had been adopted, and the new regulations made it a requirement for administering authorities to state in their SIP the extent to which they complied with those six principles.

He noted that there had been a previous requirement to refer to risk in the SIP. The new regulations now extended this to documenting how risk is monitored and managed. Based on advice given by Hymans Robertson, it was documented how it was intended to monitor and manage risk in paragraph 5.5 of the SIP.

He also noted that the new regulations required administering authorities to state their policy on stocklending. The Pensions Committee would have to look at preparing a detailed policy on stocklending in due course. That could be done when the SIP is reviewed next. The SIP had also been updated following the recent changes to fund managers and the fund's benchmark.

RESOLVED to approve the amended Statement of Investment Principles together with the amended principles of investment.

The meeting commenced at 3.00pm and concluded at 4.15pm.