



Minutes

Name of meeting	ISLE OF WIGHT PENSION FUND COMMITTEE
Date and time	FRIDAY, 28 NOVEMBER 2014 COMMENCING AT 10.30 AM
Venue	COUNCIL CHAMBER, COUNTY HALL, NEWPORT, ISLE OF WIGHT
Present	Cllrs Reg Barry, David Eccles, Stuart Hutchinson, Gordon Kendall, Daryll Pitcher, Ivor Warlow
Representatives	Christine Shaw, Admitted Bodies Representative Steve Milford, Unison Representative
Independent Advisor	Jo Holden - Mercers
Officers	Dave Burbage, Managing Director Jo Thistlewood, Technical Finance Officer
Apologies	Cllr Bob Blezzard

18. **[Election of Chairman for the Day](#)**

In the absence of the Chairman, the committee elected a chairman for the meeting.

RESOLVED :

THAT Councillor Ivor Warlow be elected Chair for the day.

19. **Minutes**

RESOLVED :

THAT the Minutes of the meeting held on [11 July 2014](#) be confirmed.

20. **Declarations of Interest**

Cllrs Reg Barry, Gordon Kendall and Ivor Warlow declared an interest as active members of the Isle of Wight Pension Fund and/or in receipt of an Isle of Wight Council Pension.

Accounting

21. External Audit Report on Pension Fund Accounts to 31 March 2014

The report presented the outcomes of the work undertaken by the external auditors in the form of the Annual Results Report for the Isle of Wight Council Pension Fund.

The final opinion of the external auditor was issued after the Audit Committee meeting and concluded that the pension fund financial statement gave a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014.

RESOLVED :

THAT the contents of the report be noted.

Governance

22. Employee Representative

The Committee, noted to record their thanks Chris Lisher for his service as the employer representative. Chris Lisher had been on the Committee for seven years and had provided valuable support to the Committee and represented the views of the fund's employers in relation to formal valuations and changes to the investment structure of the fund. The Committee also wished Chris Lisher good luck in his retirement.

Following the last Committee meeting, expressions of interest in the employer representative role were sought and two candidates came forward: Christine Shaw from Island Roads and Anne Wildeman from Spectrum Housing Group. A selection process was undertaken, with 44% of employers responding. The employers selected Christine Shaw to be their representative.

The Committee therefore welcomed Christine to her first committee meeting and to thank her in advance for her liaison between the committee and the employers of the fund

The Committee also wished to thank to Anne Wildeman for her interest in the role.

RESOLVED :

THAT the appointment be noted.

23. Pension Board

The purpose of this document was to set out the terms of reference for the local Pension Board of the Isle of Wight Pension Fund.

The Committee agreed, following discussions of a number of minor amendments, that the Terms of Reference would be circulated to members

following the meeting for final comments before a recommendation to Full Council be submitted in January 2015 on the establishment of the new Pension Board.

RESOLVED :

THAT the Technical Finance Officer would circulate the Terms of Reference incorporating amendments as discussed for final approval and subsequent recommendation to be submitted to Full Council.

Contracts

24. Administration software

The Committee was advised that following a full tender process Altair (Heywood) was selected as the providers of the new administration system. Initial data cuts had been undertaken at the end of September 2014 and testing was underway. Live data had been captured and the new system (Altair) was to run parallel with the old system in December, with an anticipated roll out date of 1 January 2015.

It was clarified that the costs, while appearing in the Council's capital budget were allocated to the Pension Fund as were the costs for maintenance etc.

RESOLVED :

THAT the oral report be noted.

25. Global Custodian Services

The Committee noted that the completed procurement process for a new global custodian service had resulted in BNP Pribas Security Services being awarded a five year contract commencing on 1 February 2015. An option to extend the contract for a further two years from 31 January 2020 was included.

The transfer process would start from 10 December 2014 and the Service Level Agreement had been drafted.

The Committee noted the role of custodian was to ensure that funds were managed separately and appropriately by the fund managers and to provide assurance.

Clarification was sought regarding the cost of the incumbent custodian who had been in place since 2006, versus the expected costs associated with the new supplier. The new service costs were significantly higher, £30-40k. However, the value added support and assurance would be increased significantly, and the costs were still relatively low when compared to the security of significant assets with a value of over £400m.

RESOLVED :

- (i) THAT the oral report be noted.
- (ii) THAT training on the custodian service be arranged at a later date.

26. Actuarial Services and Investment Consultancy Services

The Committee reviewed the performance of actuarial services (Hymans Robertson) and investment consultancy services (Mercer Ltd) providers since their inception in April 2012.

The report recommended that the contracts be extended at the end of the three year initial period (31 March 2015) for a further two years. It further recommended that the Committee authorise officers to prepare for re-tendering the contracts during May 2016, for a new contract start date of 1 April 2017.

RESOLVED :

- (i) THAT the current contracts with Hymans Robertson and Mercer Ltd be extended for a further two years to 31 March 2017.
- (ii) THAT officers undertake a procurement exercise starting in May 2016 to re-tender both contracts for a start date of 1 April 2017.

Investments

27. Overview of performance for the quarter ended 30 September 2014

The Technical Finance Officer provided an overview for the 3rd quarter of 2014. Following a discussion the independent adviser highlighted that it was key, when a fund manager underperformed, to look at why, a dip had occurred and how they performed in adverse market conditions.

RESOLVED :

THAT Newton fund management be reviewed at the next meeting.

Employers

28. Summary of changes to employers in the first half of the year

The Technical Finance Officer reported on membership numbers and contributions and the imminent loss of seven members was not expected to have an impact on the fund.

The Committee were advised that there are five new employers Lanesend Academy, Cowes Enterprise College, IOW Free School, IOW Studio School and Gurnard Town Council.

The Committee were also advised that whilst outgoings had increased this had been relative to income. The new Pensions Code had placed a time limit on collections which were now payable by the 19th of each month. There were no concerns in respect of late payments from the majority of employers but three needed to be noted being Planet Ice, Newport Parish Council and Ryde Academy but these had been resolved.

RESOLVED :

THAT the report be noted.

Fund Managers

29. **Performance Review**

(a) **Baillie Gifford, Diversified Growth Fund**

Tom Wright and Chris Murphy from Baillie Gifford updated the Pension Fund Committee on the Diversified Growth Fund in which the Council has a c. £70m holding.

The portfolio was valued at £69,303,405 at the end of September 2014. Since appointment on 30th October 2013 the Fund had returned a performance of plus 4.8% net of fees. This compared to an objective of 3.7%, being the base rate + 3.5%. Since the quarter end the portfolio had gained another c. 1.5%. This performance had been delivered in a relatively smooth fashion. It was pointed out that 11 months is a short time period over which to measure performance, and that Baillie Gifford should be judged over rolling five year periods.

Performance had been helped by strong returns from economically sensitive asset classes such as equities, high yield credit and investment grade bonds. Emerging Markets bonds, which had been weak earlier on in the year, recovered strongly. The only asset class not to make a positive contribution during the period were commodities which amounted to 4% of the portfolio. Half of this exposure relates to gold, the price of which fell as confidence rose and as investors began to anticipate increases in interest rates. It was explained that gold was held as a hedge in the portfolio to provide protection against unforeseen events, such as rampant inflation or wars, and that it was designed to protect the portfolio in these circumstances.

Questions were asked about the 9% of the fund in “cash and cash equivalents” which includes bank deposits as well as holdings in short dated T Bills and a cash fund. The cash levels are relatively high, partly because of a concern that many asset classes look fully valued and also in order to give the managers flexibility to take advantage of volatility in markets. They were able to do this in October, adding to equity exposure after markets fell in that month.

The 2% in government bonds relates to holdings in Australian bonds which yield more than US or UK equivalents and which should provide

protection in the event of a slowdown in China. Within high yield bonds holdings are being tilted towards loan funds which offer better protection than conventional bonds at similar or better levels of yield. The “Special Opportunities” portion of the fund amounts to 2% and includes smaller asset classes such as litigation finance and aircraft leasing. These are generally too illiquid at present for the managers to increase exposure by a meaningful amount.

Baillie Gifford is generally cautious about the valuations of many asset classes and that some could fall which raised the question of whether, if all fund managers think the same way that this becomes a self-fulfilling prophecy. This can be the case and Baillie Gifford try to take this into account when investing, including taking advantage of opportunities if manager behaviour creates pricing anomalies. For example they added to equity exposure in October as markets sold off on what Baillie Gifford thought were short term concerns, and in recent months they have reduced exposure to insurance linked bonds where yields have fallen considerably as demand for returns uncorrelated to economic developments had been very strong.

In summary, Baillie Gifford are confident that they can continue to deliver the target of cash + 3.5% p.a. with relatively low volatility, but the portfolio is currently positioned relatively cautiously to reflect the full valuations of many asset classes and the economic and political uncertainty that still exists in many parts of the world.

(b) **Schroder Investment Management**

Olivia Pember reported on the Fund’s investment in the Schroder UK Property Fund (SPF). Performance had been strong with a year to date return of 14% versus a benchmark return of 12%. The outlook was for continued rental growth and some limited further capital appreciation leading to a forecast of low double digit returns in 2015. SPF was £1.7bn in size and was diversified across 75 individual assets. The income yield on the portfolio was around 4%.

Olivia provided examples of activity in the portfolio including investments in retail outlets in convenient locations, offices in areas of London such as Battersea and Stratford and also in alternative sectors such as care homes and car show rooms. She also pointed to the SPF’s development in Croydon, a town providing new opportunities in light of the planned new Westfield shopping centre.

Edward Chamberlayne reported on the strong performance of the fixed income portfolio which had produced a return of 8.1% over 12 months and was 1.4% ahead of its benchmark. He explained Schrodgers’ view that the US economy would continue to recover but European growth would remain weak. Consequently, bond yields were expected to rise in the US and remain low in Europe and the portfolio had been positioned accordingly.