



City of Westminster

Minutes

Meeting:

Superannuation Committee

2/2012

Date of meeting:

Wednesday 24 May 2012 at 7.00pm

Attendees:

Councillors:

Suhail Rahuja (Chairman)

Antonia Cox

Margaret Doyle

Patricia McAllister

Dr Cyril Nemeth

Ian Rowley

Officers:

Barbara Moorhouse (Chief Operating Officer)

Jonathan Hunt (Director of Corporate Finance & Investment)

Carolyn Beech (Acting Director of Human Resources)

Jonathan Deacon (Committee & Scrutiny Officer)

Also in attendance:

Alistair Sutherland (Deloitte Investment Consultants)

Apologies:

There were none.

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1. MEMBERSHIP OF THE COMMITTEE

1.1 There were no membership changes.

2. DECLARATIONS OF INTEREST

2.1 The Chairman made the following declaration:
'I am employed by fund managers who have amongst their clients Hermes. I am not involved in any element of the work which relates to the Westminster Fund and accordingly do not regard this as a prejudicial interest'.

3. MINUTES

3.1 The minutes of the Superannuation Committee meeting held on 15 February 2012 which did not include exempt information were agreed as a correct record and were signed by the Chairman.

8. ANY URGENT BUSINESS

8.1 There were no items of urgent business.

9. EXEMPT REPORT UNDER THE LOCAL GOVERNMENT ACT 1972

9.1 The Committee decided to prioritise the exempt items on the agenda in the absence of the public and press at the meeting. The order of items considered was changed so that agenda items 10, 12 and 11 were considered prior to items 5, 6, 4 and 7.

9.2 **RESOLVED:** That under Section 100 (A)(4) and Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), the public and press be excluded from the meeting for the following items of business because they involve the likely disclosure of exempt information on the grounds shown below and it is considered that, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information:

<u>Item Nos.</u>	<u>Grounds</u>	<u>Para. of Part 1 of Schedule 12A of the Act</u>
10 to 12	Information relating to financial or business affairs of any particular person (including the authority holding that information).	3

10. MINUTES

10.1 The minutes of the Superannuation Committee meeting held on 15 February 2012 which included exempt information were agreed as a correct record and were signed by the Chairman.

12. PENSION FUND – EXTERNAL CONTRACTS

12.1 The Committee received a report on the pension fund's current administration contract with the London Pensions Fund Authority ('LPFA'), fund manager contract agreements and the Council's actuarial contract.

12.2 **RESOLVED:** That the report be noted.

11. PENSION FUND – EXTERNAL COSTS

11.1 Mr Hunt provided an overview to Members of the breakdown of the costs that had been incurred by the Fund over the last three years.

11.2 **RESOLVED:** That a report be provided to the Committee advising as to whether specific current costs are necessary and also supply further detail on central costs.

5. REPORT ON THE PERFORMANCE AND MANAGEMENT OF THE COUNCIL'S PENSION FUND

5.1 The Committee received a report which presented a summary of the Fund's performance to 31 March 2012. Mr Sutherland advised Members specifically on Insight Investment Management and Majedie Investment Management prior to representatives of the Fund Managers providing presentations to the Committee. He informed Members in respect of Insight that the head of currency team had resigned. He was not comfortable with the specific foreign exchange position taken by Insight with the Westminster Corporate Bond portfolio. In respect of Newton, they were outperforming in the current quarter as the portfolio was falling less than the market overall being defensively positioned. He had concerns that the management were still talking about future changes and it had not been demonstrated that their performance was being turned around, following a lengthy period of underperformance against the benchmark and agreed target. The Chairman commented that the Committee would be monitoring Newton closely.

5.2 **RESOLVED:** That the contents of the report be noted, in particular that the statutory constraints have been met.

6. INSIGHT INVESTMENT MANAGEMENT – MANAGER PRESENTATION

6.1 Peter Bentley, Head of UK and Global Credit and Gary Wilkinson, Institutional Client Director, represented Insight Investment Management at the meeting. Mr Bentley and Mr Wilkinson gave a brief summary of the performance of the portfolio. Mr Bentley stated that for the year to date, the corporate bond portfolio gross of fees was on target. It had exceeded the target over the last three years. For the year to date there had been some small negatives including the duration and yield curve of the non-gilt sub portfolio. A contributor had been the flattening position in the United States. The positives were the security selection and asset allocation. Insight had been cautious in the second half of 2011. In December, they had felt that the consensus was

too bearish and therefore went long on risk before reining back in April 2012. Insight's views on the economic and investment themes going forward included that there would be slow global growth with the US outperforming Europe and the UK. Inflation pressures would recede in these areas with the VAT increases in the UK dropping out of the measurements and energy prices not rising. It was expected that interest rates would remain on hold in the US, UK and Eurozone. Insight had reined in corporate bond risk, particularly during the period of the Greek elections and would make small returns from a cost neutral position.

- 6.2 The Committee asked Mr Bentley and Mr Wilkinson to explain why they wished to pursue the active foreign exchange position in the Westminster bond portfolio. Mr Bentley stated that a key tenet of Insight's philosophy was a diversification of strategy. There was a better chance of outperformance with this strategy than if Insight directed all their efforts down one avenue of fixed income. There was a specialist currency team in place with a good track record of outperformance and adding value in currency markets. A maximum risk budget of 10% would be allocated towards currency positioning.
- 6.3 Members of the Committee asked the Insight representatives whether the target Insight was being asked to meet of outperforming the benchmark by 90 basis points per annum was too high given that the Committee did not wish Insight to take undue risk with the portfolio. The representatives accepted that a higher target would require more risk but took the view that the target of outperforming the benchmark by 90 basis points per annum depended on how much freedom was given to the fund managers. If they were given the opportunities to pursue the philosophy of diversification then there was less likelihood of taking on more credit risk. It was agreed that the Insight representatives would consider outside the meeting whether the target was too high and write to the Council with their opinion.
- 6.4 Following the presentation, the Committee decided that it was not suitable for Insight to continue with the active foreign exchange position in the bond portfolio.
- 6.5 **RESOLVED:**
1. That the report and presentation be noted.
 2. That representatives of Insight be required to write to the Council with their view as to whether the portfolio target of outperforming the benchmark by 90 basis points per annum is appropriate.
 3. That Insight's active foreign exchange position in the bond portfolio be discontinued.

4. PENSIONS ADMINISTRATION STRATEGY 2012-14

- 4.1 The Committee received a report which set out the Council's proposed 2012-14 Pensions Communication and Engagement Strategy in relation to the Local Government Pension Scheme. Ms Beech stated that Human Resources had been working with the LPFA since the middle of 2011 on the

Strategy to improve communications and engage with employees of the pension fund. The Strategy contained proposals which Human Resources and the LPFA would take forward over the following two years. The maximum cost of the Strategy would be approximately £31,000 which would include LPFA time, Council staff time which be under the heading of capital costs, printing and posting costs and venue hire. She was seeking Committee approval to implement the Strategy.

4.2 Members asked a number of questions in respect of the Strategy including the following:

- Councillor Cox asked by how much the number of employees in the scheme would go up as a result of the auto enrolment process. Ms Beech replied that about 20% of non-skilled employees were not in the scheme and they would need to be notified that they would be automatically become part of the scheme unless they chose to opt out. It was expected that there would be work arising from some of the employees wishing to opt out again. It was not expected that many new employees would wish to opt out.
- The Chairman asked for further clarification on the identical costs of £6,642.89 in the estimated costs for the Strategy. Ms Beech responded that these were different items. One was for the newsletter, printing and electronic costs. The second was for an information campaign providing details of the new scheme and enrolment process.
- The Chairman queried the cost of £12,192.89 in relation to the venue. Ms Beech commented that this cost was not just for the venue and included catering for employees and pensioners and also speaker costs. Half of this was for additional costs communicating the AGM meeting to the stakeholders. It was agreed that officers would investigate whether there were more cost effective options for the venue hire.

4.3 The Chairman thanked officers for their efforts in producing the Strategy which would ensure that engagement with members of the pension fund improved. The Committee was content that the Strategy document was published.

4.4 **RESOLVED:**

1. That more cost effective options for the hire of a venue for the AGM be investigated.
2. That the Pensions Communication and Engagement Strategy be published.

7. MAJEDIE INVESTMENT MANAGEMENT – MANAGER PRESENTATION

7.1 Rob Harris, Managing Director and Reporting Fund Manager and Simon Hazlitt, Relationship Manager and Information Director, represented Majedie Investment Management at the meeting. Members of the Committee asked Mr Harris and Mr Hazlitt to address them specifically on the performance of their UK equities portfolio, their voting record on resolutions at AGMs and EGMs particularly re-numeration structures, their reasoning for wishing to

have up to 20% non-UK listed exposure in the portfolio and discuss Vodafone as a major stock that was currently held in the portfolio.

- 7.2 Mr Harris and Mr Hazlitt gave a brief summary of the portfolio's performance, commenting that this had been +8.6% per annum since inception in 2006. This had been achieved during a volatile period. The Committee congratulated the Majedie representatives on the portfolio's performance.
- 7.3 Mr Harris and Mr Hazlitt provided Members with a copy of the voting and engagement annual report to 31 December 2011. The point was made that they subscribed to the NAPF Voting Issues Service but that they were not afraid to vote either against their advice or company recommendations on re-numeration if they believed that the best interests of their clients were not being met. Aviva was one example where they had voted clients' shares against the re-numeration proposals. They were in regular communication with Mr Hunt on voting policy.
- 7.4 Mr Harris and Mr Hazlitt explained the need for the maximum of 20% non-UK listed exposure in the portfolio. The outcome was more important than the process. Majedie would remain a UK equity manager and if 100% of the most suitable companies to invest in were in the UK, they would pursue that route. However, there were opportunities to invest in pharmaceutical shares such as Novartis, Roche and Pfizer which were not listed in the UK but had the same thematic efficiency, would diversify stock specific risk and provide greater returns. There were also quality technology stocks which were not listed in the UK such as Microsoft's Cloud platform, Azure.
- 7.5 The Majedie representatives addressed the Sub-Committee on Vodafone. They were keen on this stock as it was better managed than its competitors with its competent CEO, Vittorio Colao and better positioned than its competitors, including in India. Vodafone would also gain with its investment in infrastructure and technology, including the 3G and 4G networks. Vodafone was approximately 7.8% of the portfolio.
- 7.6 Following the presentation, the Committee decided that Majedie would be permitted to have up to 20% non-UK listed exposure in the portfolio. Members noted that that there would be the same mandate and benchmark in place and the fees charged by Majedie would not alter.
- 7.7 **RESOLVED:**
1. That the report and presentation be noted.
 2. That Majedie be permitted to have up to 20% non-UK listed exposure in the portfolio.

13. CLOSE OF MEETING

- 13.1 The meeting closed at 9.34pm.

CHAIRMAN:

DATE: