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Gwasanaeth Democraidd
Democratic Service
Swyddfa'r Cyngor
CAERNARFON
Gwynedd
LL55 1SH

Cyfarfod / Meeting

PWYLLGOR PENSIYNAU
PENSIONS COMMITTEE

Dyddiad ac Amser / Date and Time

2:00pm, DYDD MAWRTH, 21 HYDREF 2014

2:00pm, TUESDAY, 21 OCTOBER, 2014

Lleoliad / Location

YSTAFELL GWYRFAI,
SWYDDFEYDD Y CYNGOR / COUNCIL OFFICES,
CAERNARFON

Pwynt Cyswllt / Contact Point

Lowri Haf Evans

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**PWYLLGOR PENSIYNAU
PENSIONS COMMITTEE**

AELODAETH / MEMBERSHIP

Plaid Cymru (3)

Y Cynghorwyr / Councillors
Peredur Jenkins
Dafydd Meurig
W. Tudor Owen

Annibynnol/Independent (2)

Y Cynghorwyr/Councillors
Trevor Edwards
John Pughe Roberts

Rhyddfrydwyr Democrataidd / Liberal Democrats (1)

Y Cynghorydd/Councillor Stephen Churchman

Llais Gwynedd (1)

Y Cynghorydd/Councillor Peter Read

Aelodau Cyfetholedig / Co-opted Members

Y Cynghorydd/Councillor Margaret Lyon, Cynrychiolydd Cyngor Bwrdeistref Sirol
Conwy /Conwy County Borough Council Representative

Y Cynghorydd/Councillor Hywel E. Jones, Cynrychiolydd Cyngor Sir Ynys Môn/Isle
of Anglesey County Council Representative

Aelodau Ex-officio / Ex-officio Members

Cadeirydd ac Is-gadeirydd y Cyngor/Chairman and Vice-chairman of the Council

AGENDA

1. WELCOME AND APOLOGIES

To receive any apologies for absence

2. DECLARATION OF PERSONAL INTEREST

To receive any declaration of personal interest

3. URGENT BUSINESS

To note any items which are urgent business in the opinion of the Chairman so that they may be considered

4. MINUTES

The Chairman shall propose that the minutes of the meeting of this committee held on 17th of June 2014 be signed as a true record.

(copy herewith – *white* paper)

5. LOCAL PENSION BOARD

To submit a report by the Investment Manager

(copy herewith – *blue* paper)

6. WELSH LOCAL GOVERNMENT PENSION FUNDS – WORKING TOGETHER

To submit a report by the pensions manager

(copy herewith – *pink* paper)

7. TREASURY MANAGEMENT 2013/2014

To submit a report by the Investment Manager

(copy herewith – *yellow* paper)

8. CONFERENCE ATTENDANCE AT THE LOCAL AUTHORITY PENSION FUND FORUM (LAPFF) 3 – 5 DECEMBER 2014

Select one member of the committee to attend the seminar

(copy herewith – *lilac* paper)

9. LGC INVESTMENT SUMMIT – ‘INVESTING FOR GROWTH’

To submit a report by the Head of Finance

(copy herewith – *green* paper)

PENSIONS COMMITTEE, 17.06.14

Present: Councillors: Stephen Churchman, Trevor Edwards, Hywel E. Jones (Representative of Isle of Anglesey County Council), Dafydd Meurig, W. Tudor Owen, John P. Roberts and Peter Read.

Officers: Dafydd Edwards (Head of Finance Department), Caroline Roberts (Investment Manager), Gareth Jones (Pensions Manager) and Lowri Haf Evans (Member Support and Scrutiny Officer).

Apologies: Peredur Jenkins, Margaret Lyon (Representative of Conwy County Borough Council).

1. ELECTION OF CHAIRMAN 2014/2015

Resolved to elect Councillor Tudor Owen as chairman of the committee for 2014/15.

2. ELECTION OF VICE-CHAIRMAN 2014/15

Resolved to elect Councillor Stephen Churchman as vice-chairman of the committee for 2014/15.

3. WELCOME AND APOLOGIES

Everyone was welcomed to the meeting by the Chairman, Tudor Owen. The above-mentioned apologies were noted.

4. DECLARATION OF PERSONAL INTEREST

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

5. URGENT ITEMS

Nothing to note.

6. MINUTES

The Chairman signed the minutes of the previous meeting of this committee, held on 17 March 2014, as a true record.

7. WESTMINSTER GOVERNMENT (DCLG) CONSULTATION ON THE OPPORTUNITIES FOR COLLABORATION, COST SAVINGS AND EFFICIENCIES IN THE LGPS

Submitted – the report of the Investment Manager which elaborated on the consultation document issued by the Department for Communities and Local Government on opportunities, cost savings and efficiencies for the LGPS in England and Wales. The Government believed that there was scope for significant savings through reform of the LGPS. The consultation was aimed at all parties with an interest in the LGPS and 11 July 2014 had been set as the closing date to submit a response.

It was outlined that the consultation document included proposals and that specific questions were asked to gather opinions. Following work between the eight pension

funds in Wales, it was noted that a joint response would be offered based on the results of the collaboration project. In addition, Gwynedd Council, as an administrating authority would also respond and the Committee was asked to consider any views or issues that they wished to include.

The proposals were discussed in detail.

Main observations from the discussion:

General observations

- Accepted the need to modernise the system
- Recognised the need to achieve savings
- Accepted the principle of forming one governing body, but 89 bodies were too much
- Concern was expressed that it would not be possible to have an influence – losing the local voice
- The size of the Wales fund was acceptable

Funding Vehicles

- How many funding vehicles would be required? More information required
- Having a choice would be beneficial e.g. investing in local funds
- More flexibility required

Fund management

- The main principle was to have better gains at less costs
- Accepted the need for a more effective structure
- Would the saving be local or central?
- Supported the option 'requirement to manage listed assets passively on a 'comply' or 'explain' basis

Everyone was thanked for their contribution to the discussion.

RESOLVED

To delegate the right to officers to draw up a draft response to the consultation. The officers to share the draft response with the Chairman of the Committee to confirm that the response complies with the Committee's observations.

8. POLICY ON ABATEMENT OF PENSION BENEFIT

Submitted – a report by the Pensions Manager stating the need to review the Fund's policy, which had been in place since 1998, on reducing or suspending pension benefits after re-employment to be consistent with provisions for 'flexible retirement'. It was noted that the need had arisen to change the Fund Abatement Policy in the context of the amendment in the Government's policy and Regulations especially as the 2014 LGPS did not allow abatement of pension that accrued after 31.3.2014.

A recommendation was made for the Pensions Committee to approve the policy change. Generally, re-employed members would receive their pension benefits unaffected by abatement excepting tiers one and two ill health retirees and pre 2008 ill health retirees i.e. such pensions that would be allowable (pre 2014 accrual only) would be abated on re-employment if the new salary plus pension exceeded the salary prior to their ill health retirement.

RESOLVED

To approve the right to change the policy so that re-employed members can receive full pension benefits excepting tiers one and two ill health retirees and pre 2008 ill health retirees so that they remain subject to a re-employment test and abatement should it be eligible and legitimate.

9. EXCLUSION OF PRESS AND PUBLIC

Resolved to exclude the press and public from the meeting during the discussion on the following item because of the likely disclosure of exempt information as defined in paragraph 14, Part 4, Schedule 12A, Local Government Act 1972. The report relates to the financial matters of the Pension Fund and one of the companies in which it invests. Disclosing the information now could affect the company's ability to compete and there is no public interest in disclosing which outweighs the company's right to keep its financial matters confidential.

10. PROPERTY INVESTMENT

Submitted – the report of the Investment Manager.

RESOLVED

To approve the recommendations of the Investment Manager.

The meeting commenced at 2:00pm and concluded at 3:00pm.

MEETING	PENSIONS COMMITTEE
DATE	21 OCTOBER 2014
TITLE	LOCAL PENSION BOARD
AUTHOR	CAROLINE ROBERTS, INVESTMENT MANAGER

1. INTRODUCTION

- 1.1 In July 2014 the Department for Communities and Local Government (DCLG) issued Draft Regulations on Scheme Governance for the Local Government Pension Scheme. The deadline for response was 15 August 2014.
- 1.2 Due to the timing of the consultation it was necessary to discuss the response on behalf of the Pension Fund at the Investment Panel meeting on 31 July 2014. A response was prepared following the meeting and agreed with the Chairman and Vice Chairman of the Pensions Committee before submission to DCLG. Please see Appendix A for a copy of the response. A joint response on behalf of the eight funds in Wales was also submitted.
- 1.3 The main requirement in the draft regulations is the establishment of a Local Pension Board.

2. THE LOCAL PENSION BOARD

2.1 Establishment of Local Pension Boards

- Each administering authority must establish a local pension board no later than 1 April 2015.
- The role of the board is to assist the administering authority to ensure compliance with all relevant regulations, other legislation and requirements in relation to the scheme. The board will also assist the authority to ensure effective and efficient governance and administration of the scheme.
- The board may be combined with an existing committee into a single dual-function body. This arrangement requires approval of the Secretary of State.

2.2 Membership of the Local Pension Board

- Each administering authority determines the membership of the local pension board.
- Membership must include employer and member representatives in equal numbers with a minimum requirement of 4 members in total.
- A councillor member of a local authority cannot be included either as an employer or member representative, but this does not prevent the appointment of councillor members, or any other person, to the local pension board as additional members above the required equal number of employer and employee member representatives.

- Local Pension Board members must have the relevant experience and capacity to perform their respective roles.
- The number of employer and member representatives appointed must represent a majority of total members.

2.3 Joint Pension Boards

- The draft regulations require each administering authority to establish a local pension board. The extent to which administering authorities are already sharing or planning to share services suggests that provision should be made for a single pension board to serve more than one administering authority.
- DCLG believes that the default position must be one local pension board for each administering authority, but exceptions could be made where administration and management is shared.

2.4 Knowledge and Understanding

- The regulations would require Local Pension Board members to have the relevant experience and capacity to perform their respective roles.
- Members of the Pensions Committee are recommended to have regard to the Knowledge and Skills Framework published by CIPFA but are under no regulatory requirement to do so.

3. GWYNEDD PENSION BOARD

3.1 The result of the consultation and the final regulations have not yet been published. However, it will be a requirement to constitute a Pension Board by 1st April 2015. Our response included a request to allow a joint Pension Board covering more than one fund. It is likely that a special case would have to be made for this option. It is unlikely that this would be feasible by April 2015.

3.2 A preliminary officers meeting has been held to discuss the constitutional and operational requirements of a Pension Board. When the results of the consultation and the final regulations are published further work will be undertaken to establish the Pension Board.

4. CONCLUSION

4.1 Members are asked to note the content of the report. An update will be provided at the next meeting of the Pensions Committee.

**The Local Government Pension Scheme (Amendment) Regulations 2014
Draft Regulations on Scheme Governance
Consultation**

This response is submitted by Gwynedd Council, as administering authority for the Gwynedd Pension Fund.

Gwynedd Pension Fund is governed by the Pensions Committee established under the Council's committee structure and Constitution. The committee consists of seven elected members of Gwynedd Council, one elected member from the Isle of Anglesey County Council and one elected member from Conwy County Borough Council. These are the three largest employers in the fund. The Committee members comply with the CIPFA Knowledge and Skills Framework.

As the existing Committee operates within a robust governance framework the members are concerned that an extra layer will be introduced for oversight thus requiring additional resources at a time when efficiencies and savings are being sought and the cost of administration for local government pension schemes is under scrutiny.

The proposed option of combining the existing Committee and the new Board as one body would not work under the current governance arrangements in Gwynedd, as it is not possible to have a committee with the majority of its members from outside the elected representatives. The alternative version of Regulation 106(5) (Option 2) which allows discretion to establish procedures applicable to a local pension board would be more appropriate.

The Pensions Committee members consider that they have a role as employer and member representatives and the prohibition on elected members being appointed as such representatives on the new Board is a matter of concern. It is recognised that the members on the Pensions Committee could not fulfil that role but other elected members would be appropriate in a similar way to the operation of the Audit Committee within the Council's committee structure.

We are concerned that it may be difficult to obtain independent representatives of quality at a reasonable cost, especially if elected members are excluded.

While we note that the draft regulations' default position for pension boards is one local board per administering authority, we do not believe that joint pension boards serving more than one administering authority fund should be dismissed. There are cases where the joint approach, with a single pension board serving several LGPS funds, may provide some advantages.

This is likely to be the case where LGPS funds already have a strong working relationship, e.g. the 8 Welsh funds currently considering a CIV, and having a history of collaborating in their communication functions, etc.

Joint boards also provide an opportunity for a local pension board to have access to several different ways of working. There is something to be said for a local board getting a different view of things and being able to share best practice across administering authorities. Indeed,

this might lead to the desirable feature of the levelling up of governance standards within the LGPS community. This might also make it easier for the Scheme Advisory Board to do its job where the alternative is dealing with 89 separate LGPS funds.

We would welcome an amendment to the regulations that permits administering authorities to share boards, if necessary having to demonstrate to the Secretary of State's satisfaction the governance benefits of doing so.

Gwynedd Pension Fund currently offers a number of meetings for employers and employees as required, including an annual employer meeting. We do not believe it is necessary to make this a requirement in the Regulations.

We note that much of the detail will follow in accompanying statutory guidance. Given the short time period for implementation of the requirements the regulations need to be in place as soon as possible and early publication of views on the content of the statutory guidance will help administering authorities to develop appropriate terms of reference.

MEETING	PENSIONS COMMITTEE
DATE	21 OCTOBER 2014
PURPOSE	UPDATE THE COMMITTEE ON THE WELSH PENSIONS COLLABORATION PROJECT
TITLE	WELSH LOCAL GOVERNMENT PENSION FUNDS - WORKING TOGETHER
AUTHOR	CAROLINE ROBERTS, INVESTMENT MANAGER

1. INTRODUCTION

- 1.1** The Committee is aware of the project undertaken by the Pensions Subgroup of the Society of Welsh Treasurers and a report recommending collective investment as the way forward was produced in April 2013 following a consultation with employers, employee representatives and other interested parties. A response to the consultation was submitted from this Committee following consideration of the issues at the committee meeting on 22nd March 2013.

2. FINAL REPORT

- 2.1** The main recommendations of the report were as follows:

- Produce a full Business Plan for a common investment approach.
- Create an appropriate and responsive governance structure to drive future collaboration.
- Build on current collaboration to achieve improvements, consistency and efficiency in administration.

3. CURRENT POSITION

- 3.1** In accordance with the report the Working Together Project Board decided to take the matter further and formulate a detailed business case to identify how in practice such a common investment approach can be implemented and to refine further the financial savings and costs that could be anticipated along with any practical difficulties which would need to be overcome.
- 3.2** The procurement process to appoint consultants was undertaken in November 2013 and three responses were received. At this stage it became clear that a number of reforms were being considered for the LGPS by DCLG. As a merger of pension funds was a consideration, the decision was made to suspend the procurement process until the Government direction was clear.

- 3.3** The Government has now decided that collective investment is the way forward rather than amalgamation of funds. The Working Together Project Board has therefore decided to move ahead and appoint the chosen consultant. The cost of this appointment will be funded by the eight pension funds. It is estimated that each fund will need to contribute £8,500.
- 3.4** The result of the Business Case will be reported to this committee when it is completed. Any steps to be taken as a result of the report will then be considered and agreed by this committee.

4. RECOMMENDATION

- 4.1** The committee is asked to approve a contribution to the cost of the Business Case to a maximum of £8,500.

MEETING: **PENSIONS COMMITTEE**

DATE: **17 OCTOBER 2014**

TITLE: **TREASURY MANAGEMENT 2013/14**

PURPOSE: **CIPFA’s Code of Practice requires that a report be produced on the results of the Council’s actual Treasury Management on behalf of the Pension Fund.**

RECOMMENDATION: **RECEIVE THE REPORT FOR INFORMATION**

AUTHOR: **CAROLINE ROBERTS, INVESTMENT MANAGER**

1. Introduction and Background

CIPFA’s revised Code of Practice on Treasury Management was adopted by the Council on 1st March 2011 and the Council fully complies with its requirements. The Code requires that I report on the results of the Council's actual treasury management in the previous financial year against expectations.

In accordance with the Welsh Assembly Government’s Statutory Guidance on Local Government Investments, which requires an authority to produce an Annual Investment Strategy, it was considered best practice for the Gwynedd Pension Fund (the “Fund”) to adopt Gwynedd Council’s Treasury Management Strategy Statement (TMSS) for 2013/14, as amended for the purpose of the Pension Fund. The Pensions Committee approved the TMSS at its meeting on 22 March 2013. As a result, I am required to report on the results of the actual treasury management in 2013/14 against expectations.

2. Investment Activity

The Welsh Assembly Government’s (WAG’s) revised Investment Guidance came into effect on 1st April 2010 and reiterated the need to focus on security and liquidity, rather than yield. It also recommended that strategies include details of assessing credit risk, reasons for borrowing in advance of need and the use of treasury advisers.

Pension Fund Balances	Balance on 31/03/2013 £m	Balance on 31/03/2014 £m
Balances	7.4	10.7

As requested by the Pensions Committee on 22 March 2013, the pension fund’s money was pooled with the Council’s general cashflow. As agreed at the Pensions Committee on 17 March 2014 this arrangement continues in 2014/15. Currently interest rates are very low but there is no reason to change this decision.

The table below shows a summary of where this pooled money was invested during 2013/14.

Investments	Balance on 01/04/2013 £'000	Investments Made £'000	Maturities/ Investments Sold £'000	Balance on 31/03/2014 £'000	Avg Rate %
Short Term Investments	35,629	208,200	(216,746)	27,083	0.63
TOTAL INVESTMENTS	35,629	208,200	(216,746)	27,083	0.63
Increase/ (Decrease) in Investments £m				(8,546)	

Security of capital remained the Authority's main investment objective. This was maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2013/14 which defined "high credit quality" organisations as those having a long-term credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.

Investments with banks and building societies included call accounts, fixed-rate term deposits and certificates of deposit. The maximum duration of these investments was 12 months in line with the prevailing credit outlook during the year as well as market conditions.

Credit developments and credit risk management

The Authority assessed and monitored counterparty credit quality with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP and share price. The minimum long-term counterparty credit rating determined by the Authority for the 2013/14 treasury strategy was A- across rating agencies Fitch, S&P and Moody's.

The debt crisis in Cyprus was resolved by its government enforcing a 'haircut' on unsecured investments and bank deposits over €100,000. This resolution mechanism, in stark contrast to the bail-outs during the 2008/2009 financial crisis, sent shockwaves through Europe but allowed banking regulators to progress reform which would in future force losses on investors through a 'bail-in' before taxpayers were asked to support failing banks.

The Financial Services (Banking Reform) Act 2013 gained Royal Assent in December, legislating for the separation of retail and investment banks and for the introduction of mandatory bail-in in the UK to wind up or restructure failing financial institutions. EU finance ministers agreed further steps towards banking union, and the Single Resolution Mechanism (SRM) for resolving problems with troubled large banks which will shift the burden of future restructurings/rescues to the institution's shareholders, bondholders and unsecured investors.

Proposals were also announced for EU regulatory reforms to Money Market Funds which may result in these funds moving to a VNAV (variable net asset value) basis and losing their ‘triple-A’ credit rating wrapper in the future.

The material changes to UK banks’ creditworthiness were (a) the strong progress made by the Lloyds Banking Group in strengthening its balance sheet, profitability and funding positions and the government reducing its shareholding in the Group to under 25%, (b) the announcement by Royal Bank of Scotland of the creation of an internal bad bank to house its riskiest assets (this amounted to a material extension of RBS’ long-running restructuring, further delaying the bank’s return to profitability) and (c) substantial losses at Co-op Bank which forced the bank to undertake a liability management exercise to raise further capital and a debt restructure which entailed junior bondholders being bailed-in as part of the restructuring.

In July Moody’s placed the A3 long-term ratings of Royal Bank of Scotland and NatWest Bank and the D+ standalone financial strength rating of RBS on review for downgrade amid concerns about the impact of any potential breakup of the bank on creditors. As a precautionary measure the Authority reduced its duration to overnight for new investments with the bank(s). In March Moody’s downgraded the long-term ratings of both banks to Baa1. As this rating is below the Authority’s minimum credit criterion of A-, the banks were withdrawn from the counterparty list for further investment.

The Co-op’s long-term ratings were downgraded by Moody’s and Fitch to Caal and B respectively, both sub-investment grade ratings. The Co-op Bank’s capital raising plans to plug a capital shortfall include a contribution from the Co-op Group which is committed to injecting £313m in 2014 of which £50m has been paid so far. However, in order to cover future expected losses and to meet the Prudential Regulation Authority’s capital targets, a further £400m is being sought from shareholders, of which Co-operative Group’s share is approximately £120m. Given the Co-op Group’s own financial position, payment of these sums is by no means certain, leaving the bank with a precarious capital position.

The Authority’s counterparty credit quality has weakened as demonstrated by the Credit Score Analysis summarised below. The table in Appendix 3 explains the credit score.

Credit Score Analysis 2013/14

Date	Value Weighted Average Credit Risk Score	Value Weighted Average Credit Rating	Time Weighted Average Credit Risk Score	Time Weighted Average Credit Rating	Average Life (days)
31/03/2013	5.17	A+	4.97	A+	81
30/06/2013	5.18	A+	5.30	A+	42
30/09/2013	5.44	A+	4.66	A+	68
31/12/2013	5.72	A	5.55	A	110
31/03/2014	5.69	A	5.80	A	102

Liquidity Management

In keeping with the Welsh Government Guidance on Investments, the Authority maintained a sufficient level of liquidity, averaging £63.8m through the use of Money Market Funds, overnight deposits and call accounts. The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed.

Yield

The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates also remained at very low levels which continued to have a significant impact on investment income. The average 3-month LIBID rate during 2013/14 was 0.45%, the 6-month LIBID rate averaged 0.53% and the 1-year LIBID rate averaged 0.78%. The low rates of return on the Authority's short-dated money market investments reflect prevailing market conditions and the Authority's objective of optimising returns commensurate with the principles of security and liquidity.

The funds' performance and continued suitability in meeting the Authority's investment objectives are monitored regularly.

The Authority's budgeted investment income for the year had been estimated at £0.56m. The average cash balances representing the Authority's reserves, working balances etc. were £63.8m during the period and interest earned was £0.40m.

Update on Investment with Heritable Bank

The authority has now recovered 94% of its investments in Heritable Bank. It is likely that further distributions will be received, although the administrators have not made any further estimate of final recoveries yet.

CIPFA issued further guidance on the accounting treatment surrounding these transactions in September 2013 when LAAP 82 (update 8) was issued. CIPFA has no plans to issue any additional updates.

4. Recommendation

The Pensions Committee is asked to receive the report for information on investment of the Fund's cash, pooled with the Council's cash, in 2013/14.

Credit Score Analysis

Scoring:

Long-Term Credit Rating	Score
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10
Not rated	11
BB	12
CCC	13
C	14
D	15

The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit

The Council aimed to achieve a score of 7 or lower, to reflect the Council's overriding priority of security of monies invested and the minimum credit rating of threshold of A- for investment counterparties.

MEETING	PENSIONS COMMITTEE
DATE	21 OCTOBER 2014
PURPOSE	SELECT A REPRESENTATIVE TO ATTEND THE CONFERENCE
TITLE	CONFERENCE ATTENDANCE AT THE 'LOCAL AUTHORITY PENSION FUND FORUM (LAPFF) ON 3 – 5 DECEMBER 2014
AUTHOR	CAROLINE ROBERTS, INVESTMENT MANAGER

1. INTRODUCTION

- 1.1** The Local Authority Pension Fund Forum (LAPFF) annual conference will be held in Bournemouth on 3rd – 5th December 2014.

2. ATTENDANCE

- 2.1** In 2013 the Vice Chair and the Investment Manager attended the conference. The programme for the 2014 conference is attached as Appendix A.

3. RECOMMENDATION

The Committee is asked to select a member to attend the conference.



Local Authority
Pension Fund
Forum

19TH Annual LAPFF Conference

3, 4, 5 December 2014

The Highcliff Marriott Hotel, Bournemouth

PRODUCTIVE

INVESTMENT:

Public funds and public purpose

OUR ANNUAL Conference theme this year reflects the 'great debate': what are the LGPS assets doing! Everyone, from the Treasury to the think tanks, across stakeholders, companies and local communities, wants a piece of the action. Our title reflects the challenges: 'Productive Investment: Public Funds and Public Purpose'. With over £150 billion in assets across the funds, there has been endless

speculation about how this capital should be invested.

Of course the first call on these assets is the continuing need to pay pensions, now and at any time in the future. Much of the debate has focussed on the role for local authority pension fund investment in city and urban development to reinvigorate local and regional economies through impact investing, amongst other strategies. To follow that route at our conference we have **Lord Michael Heseltine**, a consistent, experienced and vocal policy advocate for urban themes. He will contribute by providing a UK perspective on the challenges communities, city governments, central governments and investors all face in coming to the aid of our great cities.

The approach of Northern Cities in creating new centres of economic and social growth has already begun. Our second keynote speaker is **Jim O'Neill**, formerly head of Economics at Goldman Sachs and

avid Manchester United fan. Jim now heads up the Cities Growth Commission and will set out their case for regional growth strategies based on turbo boosting northern city development.

Other themes to be explored at the Conference are new asset owner strategies on executive pay; diversity recruitment; shareholder nominated directors; preparing for the new LGPS and the fate of RBS, with journalist and broadcaster **Ian Fraser**, author of *'Shredded: Inside RBS the bank, the Bank that Broke Britain'*.

The LAPFF conference is the largest gathering of institutional investors in the UK focussing on responsible investment. LAPFF brings together 60 public sector pension funds with combined assets over £150 billion. Our conference is regularly attended by 200 delegates and has become noted for its range and focus for pension fund trustees. It is also regarded as a showcase for responsible investment.

19TH Annual LAPFF Conference, 2014

3,4,5 December, The Highcliff Marriott Hotel, Bournemouth

Programme Productive investment: public funds and public purpose

WEDNESDAY 3

3.30pm

LAPFF member roundtable

7.30pm

Drinks reception

8.30pm

Dinner

sponsored by
Sarasin & Partners



Entertainment
sponsored by
Darwin Property
Investment
Management



Refreshments
throughout the
conference
sponsored by
Jupiter



Conference badges
sponsored by
Royal London
Asset Management



Conference bag
sponsored by AGF



Conference delegate
folder sponsored
by Martin Currie



Conference notebook
sponsored by
Capital Dynamics



Conference pen
sponsored by
LGT Capital
Partners



Conference gift
sponsored by
Robbins Geller
Rudman & Dowd



THURSDAY 4

9.30am **Welcome to the conference**

Cllr Kieran Quinn, Chair of LAPFF

9.45am **What kind of infrastructure investment do we need?**

Speaker to be announced

10.30am Q&A

10.45am Refreshments

11.00am **LAPFF engagement**

Cllr Kieran Quinn, Chair of LAPFF and GMPF
Cllr Richard Greening, LAPFF Executive and
Chair of LB Islington PF
Cllr Cameron Rose, Vice Chair of LAPFF,
Lothian Pension Fund

11.40am **Mergers and acquisitions**

Tim Bush, PIRC Ltd
+ speakers to be announced

12.15pm **Rt Hon the Lord Heseltine CH**

Former Deputy Prime Minister
No stone unturned, urban regeneration

1.00pm Lunch

2.00pm **'Shredded inside RBS'**

Ian Fraser, journalist and author

2.45pm **International activism**

James Hoffa, General President, International
Brotherhood of Teamsters
Louis Malizia, Asst Director, Capital Strategies
Dept, International Brotherhood of Teamsters
Yasuaki Kinoshita, Chief Portfolio Manager,
Nissay Asset Management

3.45pm Refreshments

4.10pm **LGPS issues**

Bob Holloway, DCLG
Cllr Kieran Quinn, Chair of LAPFF and GMPF
Cllr Denise Le Gal, Chair Surrey CC Pension
Fund
Terry Crossley, Barnett Waddingham

4.50pm Q&A

5.15pm Close

7.30pm Drinks reception
sponsored by Entrust



8.30pm Dinner
sponsored by Robbins
Geller Rudman & Dowd



FRIDAY 5

9.30am Welcome back from the chair of LAPFF,
Cllr Kieran Quinn

9.40am Conference chair
David Pitt-Watson, London School
of Economics

9.45am **Building cities for the future**

Jim O'Neill, Chairman, City Growth
Commission

10.30am **Executive pay:**

Alignment or intrinsic value

Cllr Kieran Quinn, Chair of LAPFF
and GMPF
Natasha Landell-Mills, Sarasin & Partners
James Upton, Senior Manager,
Governance, BHP Billiton (invited)

11.15am Refreshments

11.30am **Board diversity and director
competencies**

Laura Carstensen, Non-Executive
Director, Equality & Human Rights
Commission
Fiona Reynolds, CEO, Principles for
Responsible Investment

12.15pm **How better business practice can drive
both market and social returns**

Cherie Blair, CBE, QC, Chair, Omnia
Strategy LLP

1.00pm Conference close

Buffet lunch

If you would like to book a place please complete the following registration form

19TH Annual LAPFF Conference, 2014
Productive investment: public funds and public purpose

3, 4, 5 December 2014 at the Bournemouth Highcliff Marriott Hotel, St Michael's Rd, Westcliff, Bournemouth BH2 5DU

- LAPFF members receive two complimentary delegate places
- Local Authority delegates, non-LAPFF members and 'not-for-profit' organisations: £500 +VAT (£100) = £600.00
- Delegates not in the above categories, delegate rate: £1,500 +VAT (£300) = £1,800

Please register the following for the Local Authority Pension Fund Forum 19th Annual Conference on 3, 4, 5 December 2014 at the Bournemouth Highcliff Marriott Hotel:

NAME _____

POSITION _____

ORGANISATION _____

ADDRESS _____

POSTCODE _____

TELEPHONE _____

FAX _____

EMAIL _____

- Please specify any dietary requirements

LAPFF member booking

Non-LAPFF member local authority rate

please invoice my organisation

cheque made payable to 'PIRC Ltd' enclosed

please charge my credit card

Full delegate rate

Please invoice my organisation

cheque made payable to 'PIRC Ltd' enclosed

Please charge my credit card

I cannot attend but I would like to order the conference papers at £150

Type of card: Visa / Switch / Mastercard / JCB

CARD NO _____

EXPIRY DATE _____

NAME OF CARD HOLDER _____

SIGNED _____

DATE _____

I would like to attend the following **social events** at the LAPFF 19th Annual Conference on 3 & 4 December 2014.

- Drinks reception on Wednesday 3 December, at 7.30pm in the Dorchester Suite at The Bournemouth Highcliff Marriott Hotel.
- Conference dinner on Wednesday 3 December, at 8.30pm in the Dorchester Suite at The Bournemouth Highcliff Marriott Hotel.
- Drinks reception on Thursday 4 December at 7.30pm in the Dorchester Suite at The Bournemouth Highcliff Marriott Hotel.
- Conference dinner on Thursday 4 December at 8.30pm in the Dorchester Suite at The Bournemouth Highcliff Marriott Hotel.

If you would like to make a reservation at the Bournemouth Highcliff Marriott Hotel, rooms have been reserved on 3 & 4 December for the LAPFF conference at £117 per night including breakfast. Delegates are responsible for their own accommodation.

Please contact the Bournemouth Highcliff Marriott Hotel directly on 0870 400 7211 and quote the LAPFF Conference when reserving a room. All rooms will be allocated on a first come, first served basis. Alternatively [click on this link](#) which will direct you to the Bournemouth Highcliff Marriott Hotel's home page with the negotiated rate code already entered in the appropriate field and you can quickly make your room reservation.

Please return the completed form to:
 Janice Hayward
 LAPFF Research and Engagement Partner
 PIRC Limited
 6th floor,
 9 Prescott Street
 London E1 8AZ
 Tel: 020 7392 7894 · Fax: 020 7680 4081
 Email: JaniceH@pirc.co.uk

Please note that payment must be received by PIRC before the conference date in order to guarantee your registration. Cancellations up to 21 days before the event will be accepted subject to 30% administration charge. Cancellations received less than 21 days prior to the event receive no refund of fees. Substitute delegates are welcome with prior notification.

LAPFF reserves the right to alter or amend the programme due to circumstances beyond its control.

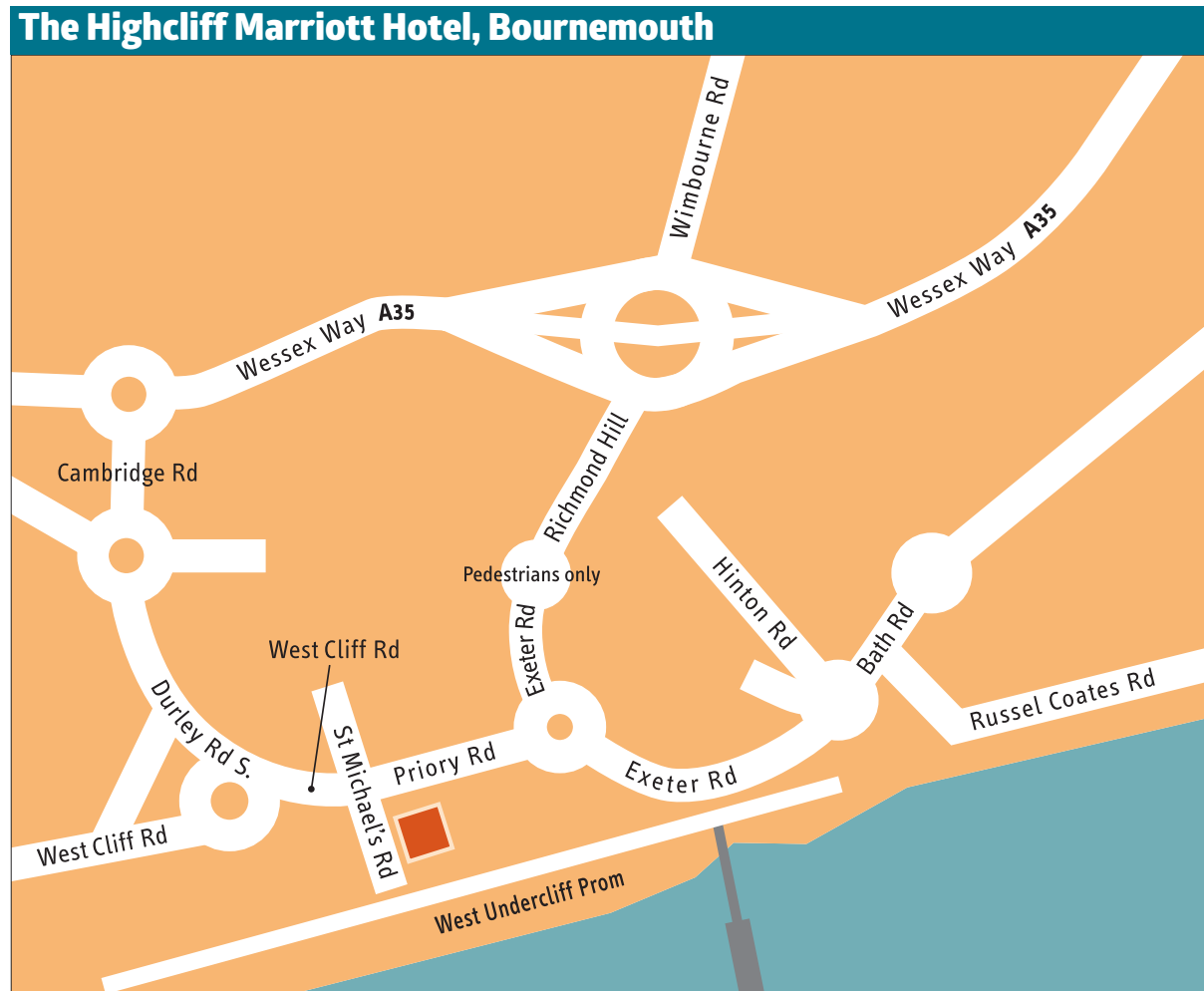
THE LAPFF CONFERENCE 2014 GRATEFULLY ACKNOWLEDGES THE SPONSORSHIP OF THE FOLLOWING ORGANISATIONS:



19TH Annual LAPFF Conference, 2014

Productive investment: public funds and public purpose

3,4,5 December 2014



The Highcliff Marriott Hotel is in **St Michael's Road, Bournemouth**.

BY ROAD, FROM THE NORTH AND EAST:

from the M3 take the M27 to the end of the motorway following signs for Bournemouth (A31). Turn left onto the A338 (Wessex Way) at Ashley Heath roundabout, following signs for Bournemouth International Centre (BIC) and Westcliff.

At Westcliff Road take the second turning on your right (past pedestrian crossing) into St Michael's Road. The hotel is at the end of the road on the right.

FROM THE WEST:

from the A35 follow the signs for Bournemouth Town Centre (BIC/Westcliff). When you reach Westcliff Road follow directions as above.

THE LAPFF CONFERENCE 2014 GRATEFULLY ACKNOWLEDGES THE SPONSORSHIP OF THE FOLLOWING ORGANISATIONS:

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MEETING: PENSIONS COMMITTEE

DATE: 21 October 2014

TITLE: LGC INVESTMENT SUMMIT
9-10 SEPTEMBER 2014 - "Investing for Growth"

PURPOSE: To inform the members of the Pensions Committee of the benefits gained from attending the conference

AUTHOR: Dafydd L Edwards – Head of Finance

INTRODUCTION

1. Once again, this year's 'LGC Investment Summit', was held at Celtic Manor, Newport, and attended by Councillor Margaret Lyon, Councillor John Pughe Roberts and Dafydd Edwards, Head of Finance. The following brief report refers to a selection of the presentations, and opportunities to learn from informal networking.

ECONOMIC AND MARKET OUTLOOK

2. **Josh McCallum** and **Kevin Barker** both from UBS, advised that "more volatility to come is the only certainty". They spoke of concerns that inflation may get out of control (with pay awards in Germany at 3%), and that as inflation becomes self-fulfilling, it is painful to get under control.
3. Further, they explained that deflation, as in Japan, leading to huge debt, can be worse than inflation. They also added [on Quantitative Easing] that if printing money was the way to promote growth, then Zimbabwe would be the World's richest nation!
4. Applying this to investment strategy, their opinion was that if inflation happens, then pension funds need not to be in bonds, certainly German bonds. Concluding, they re-appropriated the popular acronym "TOWIE" to mean "the only way is equities".

GENERATING ATTRACTIVE RETURNS WITH LOW RISK

5. **Phil Apel**, Head of Fixed Income, Henderson Global Investors, and **Alex Younger**, Investment and Accountancy Manager, Norfolk Pension Fund, presented a session discussing diversification to gain attractive returns with low risk.

As well as endorsing an absolute return mandate for a fixed income portfolio, they discussed the risk and reward from diversifying into Credit Default Swaps (derivatives). Henderson's expert voiced a note of caution when explaining how CDS's can behave differently to the underlying fixed income securities they're based upon, and venturing to the top end of this asset class would be getting into hedge fund territory!

6. In order to protect from volatility, Henderson's specialist suggested that funds could consider tolerating lower liquidity to increase returns. However, as volatility will pick up, funds will seek to de-risk via liquidity. The speakers concluded that duration of portfolios is key – and the “trick” is knowing when to take advantage of illiquidity premium.
7. Delegates' informal networking opportunities with Hendersons featured a display of Welsh produce, with experts discussing Welsh food and drink such as Pant Du cider, etc. Further, the Celtic Manor also served food from the Gwynedd Fund's area, including Blas y Castell welsh cakes from Cae Groes Bakery, Llanllechid.

NEW DOORS OPEN IN SECURE INCOME AS BANKS RETREAT

8. **John Dewey**, BlackRock, discussed investment opportunities when UK Bonds have negative yields. He noted that equities have done well since 2008, but now we have low expectations of future performance. He added that Private Equity might provide good returns, but was less reliable / secure.
9. He noted that Secure Income Assets give additional yield (over bonds) reflecting credit risk and illiquidity risk, but local authorities need secure cashflows (not being locked in to defaulting borrowers, “haircuts”, etc). BlackRock's specialist concluded that funds should generally pick and choose opportunistically from a broad range of investments, not one sector which can get overheated.

SOCIAL IMPACT INVESTING

10. **Simon Bond** of Threadneedle Investments explained that “Social Impact Bonds” are not really a “bond”, but argued that there is “no need to sacrifice financial return in order to receive a social return”. His theory was that the “social universe” exists where yield, liquidity and “social intensity” overlap. He explained how Manchester University assessed ESG factors and outcomes into a spectrum of low / medium / high social intensity. However, the social impact from the bonds available was general, rather than favouring any specific need or area.
11. Later, Gwynedd delegates informally networked with Alex Younger and Nicola Mark of the innovative Norfolk Pension Fund and various firms' fund managers, considering “local” investment opportunities for diversification. We concluded that there were no appropriate opportunities or vehicles (funds) for “local” investment in more rural regions, and that the security, liquidity and yield was not yet proven in metropolitan funds.

TOP QUALITY GOVERNANCE IN YOUR SIZE

- 12. Ronnie Bowie** and **John Wright** from Hymans Robertson presented the final session, Ryder Cup - Fairway to Heaven, entertainingly applying golfing logic to investment. Ronnie compared Tiger Woods' demise and LGPS funds' recovery during 2010 to 2013, before John presented an analysis of Hymans' like for like comparison of funding levels, showing how some funds are more dependent than others upon higher notional investment returns.
- 13.** In 2013 (to recover reduced deficits), funds now have a lower required return. On average, there has been a reduction of 1% due to good investment performance 2010-2013, but also due to increased employers' pension contributions.
- 14.** Ronnie presented Hymans' data for CLG showing that active management had generally detracted from funds' performance over 10 years. However, he countered that over 3 years 2010-2013 more local government funds have outperformed their benchmark, and that active management has contributed positively during that time. Hymans did not argue for 100% passive management, they felt that was not the answer, but it might be imposed by CLG. The outcome of Hymans' review for CLG was not to encourage a performance flatline, but improve the poorest performers, avoiding the downside.
- 15.** Further, Hymans' review had reported that small funds achieved less than big funds when both used active management, smart benchmarks, and alternatives. With regard to medium to large funds, Ronnie confirmed that there is no correlation between size and performance.

CONCLUSIONS

- 16.** This special venue, the Celtic Manor, once again gave a high profile to the conference and to Wales. It provided an ideal environment to meet, learn and listen to a valuable debate on leading edge investment issues, and delegates attending this year feel it would be worthwhile for the Gwynedd Fund to be represented again if the conference returns to the same venue in 2015.
- 17.** Further, the event's format continues to provide useful opportunities for frank 1:1 discussions with investment managers between sessions, and opportunities to network with other funds' delegates, as all Welsh funds were represented, and contacts were also made with peers from England and Scotland.