

DYFED PENSION FUND

Meeting of the Pension Fund Panel held at 3.30pm on Thursday 9 March 2017 at BlackRock Offices, 12 Throgmorton Avenue, London

Those present were:

Cllr. W.J.W. Evans	Chairman of the Panel Carmarthenshire County Council
Cllr. T. Davies	Member of the Panel Carmarthenshire County Council
Cllr. S. E. Thomas	Member of the Panel Carmarthenshire County Council
Mr. C. Moore	Director of Corporate Services Carmarthenshire County Council
Mr. A. Parnell	Treasury & Pension Investments Manager Carmarthenshire County Council
Mr. E. Lambert	Independent Investment Adviser

1 Minutes of the Pre Panel Meeting 24 November 2016

They were confirmed as a true record.

Moved by Cllr Sian Thomas and seconded by Cllr Terry Davies.

2 Matters arising from the minutes of 24 November 2016

Item 2 Scolton Manor – Letter (approved by Ceredigion County Council) has been sent to Pembrokeshire County Council.

3a) **Performance & Risk to 31 December 2016**

Mr Eric Lambert presented this performance and risk item.

The highlight of the quarter was the surprise election of Donald Trump as US President. While the long lasting impact can only be guessed at this stage the US equity market, and by implication most others, performed strongly on a 'Risk On' and 'Trump' rally. The US equity market was up almost 10% over the quarter and, astonishingly, up over 30% over the last year in sterling terms, considerably enhanced by weak sterling. Other major international equity markets were also buoyed and gave very strong quarterly and yearly returns.

The UK market appeared to be the laggard, with a quarterly return of only 3.9% and an annual return of 16.8% but these returns do not have the benefit of conversion from currencies which have typically gained 10-20% against sterling since the (equally surprising as Trump) Brexit vote.

Given the dominance of the US market (>50%) in the global equity benchmark it is no surprise that global equities gave a very strong return of 6.5% over the quarter and 29.4% over the year.

In stark contrast bond markets performed relatively poorly as yields typically rose (bond prices are the inverse of yields so if yields rise, prices fall). For example, the UK gilt market returned -3.4% over the quarter which reduced the annual return to just over 10%. More relevant for long-term pension funds is the longer-dated (over 15 years) gilt index which returned -2.0% over the quarter and 18.5% over the year. Index-linked were similarly adversely impacted and the longer-dated (over 5 year) index return was -3.0% over the quarter but an incredibly strong 27.4% over the year. Corporate bonds, while giving an extra yield over Government issues for the possibility of default (the credit premium), are driven mostly by the same forces as gilts and so also gave a poor performance (-5.3%) over the quarter and 18.6% over the year.

UK Property recovered somewhat from the worries around Brexit which dominated the third quarter and returned 2.3% over the fourth quarter bringing the annual return to 2.8%. Property has performed strongly over the past 3 years with an annualised return of over 10% pa, with about half of that the income yield. Leading property asset managers, with massive caveat as to the type of Brexit eventually negotiated and consequent impact on the UK economy and its continued attractiveness as a corporate European HQ, are suggesting a property return of c5% pa over the next 3-5 years, essentially the rental income yield. A decent, if unexciting, return.

The fund delivered an estimated return of 2.9% for the quarter against a benchmark of approx. the same. Over the year the estimated fund and benchmark return is c 21.4% and over the rolling 3 years the fund has again broadly matched its benchmark, both c11% pa.

The new PIRC performance team have issued an indication of the returns a typical Local Authority fund would have achieved: 3.2% over the quarter, 18.2% over the year and 9.8% pa over the rolling 3 years. Therefore our fund, while trailing over the quarter, has enjoyed considerably stronger returns over the 1 and 3 years.

b) Strategy Review

A discussion on likely asset allocation changes took place between members, officers and the Independent Investment Adviser. It was agreed that Mr Eric Lambert would provide a formal proposal on a strategy review with an approximate fee and timescale. An interim panel meeting would be held in April 2017 to review the proposal.

4 Property Managers Performance reports to 31 December 2016

a) Schroders

Quarter 4 2016 showed an underperformance relative to the benchmark of -0.8%. The UK portfolio provided a 1.6% gross return. Continental Europe returned a poor 0.3% gross return. All fund styles detracted from performance and to a large extent the underperformance was as a result of dealing costs (-0.4%).

Over the 12 month period to 31 December 2016 there was an outperformance relative to the benchmark of 0.2%. The UK portfolio provided a strong 2.6% gross return and Continental Europe returned a 14% gross return.

Over the 36 month period to 31 December 2016 there was an underperformance relative to the benchmark of -0.6%pa. The UK portfolio provided a 11.2% gross return pa and Continental Europe returned a 4.8% gross return pa.

The UK core funds have matched the benchmark and UK value added funds have made positive contributions. Holdings in continental Europe are detractors to returns over the three year period (-0.4%).

Over the 5 year period to 31 December 2016 there was an outperformance relative to the benchmark of 0.4%pa. The UK portfolio provided a 9.5% gross return pa and Continental Europe returned a 4.6% gross return pa.

The UK core funds outperformed the benchmark and UK value added funds have made positive contributions. Holdings in continental Europe are detractors to returns over the five year period (-0.4%).

b) Partners Group

88% of the £67m commitment target had been achieved, there had been approx. £47m of drawdowns to date and the NAV was £34m. There had also been £24m of distributions received. Hence the total value of the partnership was £58m.

33% of the investments are in the UK and 67% in Continental Europe. 13% in direct investments, 43% in secondary and 44% in primary.

In the fourth quarter of 2016, Partners Group continued to source for real estate opportunities across Europe, screening a total of 254 potential direct investments, secondary transactions and primary commitments.

Partners Group Red Dragon invested capital primarily into NREP Nordic Strategies Fund II, Norway Retail SHL, German Property Performance Partners LP, European

Property INVS Special OPPS III and L.P. Curzon Capital Partners III, L.P. during the quarter.

It was agreed that both Schroders and Partners Group would attend the interim panel meeting in April 2017.

5 Budget Monitoring 1 April 2016 – 31 January 2017

Mr Anthony Parnell presented the budget monitoring report.

Pensions Payable was forecasted to be lower than budgeted because new pensioners had been budgeted at £2.1m whereas in fact the increase is only £1m.

The global equity manager's fees were forecast to be higher than budgeted at around £0.3m due to the increase in the market valuations of the global equities after the BREXIT referendum.

Employer and member contributions were higher than budgeted by £1m as the active membership base for the major employers is higher than forecast. Investment Dividends was higher than budgeted by £1.8m as dividend income received from BlackRock was greater than budgeted.

As a result of these variances net cash income was c£3.3m more than budgeted.

6 Budget 2017-18

Mr Anthony Parnell presented the budget.

Assumption re: increase in pensioners and deferreds was £850k and there was an allowance of 1% for inflationary increase in pensions.

Additional budget of £40k was included for website host fees and £75 for All Wales pooling fees.

7 Cash Reconciliation 31 December 2016

Noted for information.

8 Administration

Mr Chris Moore presented the pensions administration report. He explained that there had been a restructure of the team due to scheme pressures.

The GMP reconciliations work was continuing and still on target to complete.

9 2016-17 Audit Plan

Mr Chris Moore presented the plan which he said was similar to previous years. The audit manager had not changed, it was still Jason Garcia. The audit fee was the same as last year. The risks have been agreed with officers.

10 Breaches Report

Mr Anthony Parnell presented the report.

He explained that there had been some minor breaches during the year but none were ongoing.

11 Draft Business Plan 2017-18

Mr Anthony Parnell presented the plan.

It was approved by panel on the proviso that the 16-17 figures were updated once finalised.

12 Risk Register 2017-18

It was agreed that this item would be deferred until the April 2017 interim panel.

13 Funding Strategy Statement

Mr Anthony Parnell presented the statement.

He explained that it was currently out for consultation with employers.

14 Investment Strategy Statement

Mr Anthony Parnell presented the statement.

Again he explained that it was out for consultation.

15 Governance – Local Pension Board

Mr Anthony Parnell provided a verbal update.

16 All Wales LGPS Pension Collaboration Project

Mr Chris Moore and Mr Anthony Parnell provided a verbal update to panel and presented the Inter Authority Agreement (IAA).
The IAA had been approved by County Council on 8 March 2017.

17 Updated Training Plan 2016 – 2017

Mr Anthony Parnell presented the updated training plan to Panel.

18 Training, seminar and conference attendance:

a. Feedback from LAPFF AGM and quarterly business meeting, London 31 January 2017

Cllr Sian Thomas provided feedback.

b. Attendance at LAPFF quarterly business meeting, London 11 April 2017

There would be no attendees from the fund.

c. Attendance at the PLSA Local Authority Conference, Cotswold Water Park Four Pillars Hotel, Gloucestershire 15 – 17 May 2017

Mr Paul James and Mr Kevin Gerard would be attending.

d. Attendance at LAPFF quarterly business meeting, London 27 June 2017

Mr Paul James would be attending with a new member following the May election.

19 AOB

As it was the last panel meeting for those members that would not be standing at the May election Mr Chris Moore thanked them for their support and dedication over the years. Mr Eric Lambert also provided thanks.

20 Date of next meeting

It was agreed that an interim panel would be held in April 2017 in Carmarthenshire.