

MINUTES

A&B – Public

<p>Pension Fund Committee Council Chamber, Town Hall, Lerwick Tuesday 22 May 2018 at 2pm</p> <p>Present - Members: A Cooper S Coutts A Duncan S Leask E Macdonald R McGregor I Scott G Smith T Smith</p> <p><u>Apologies:</u> R Thomson</p>	<p>Pension Board Council Chamber, Town Hall, Lerwick Tuesday 22 May 2018 at 2pm</p> <p>Present - Members: D Marsh J Fraser A Taylor</p> <p><u>Apologies:</u> M Bell A Westlake R Williamson</p>
<p>In Attendance: J Belford, Executive Manager - Finance C Bain, Treasury Accountant A MacIver, Assistant Accountant P Sutherland, Solicitor L Adamson, Committee Officer</p> <p>Also in Attendance: J Mitchell, Newton Investment Management M Brown, Newton Investment Management</p>	

Chair

Mr Coutts, Chair of the Pension Fund Committee, presided.

Circular

The circular calling the meeting was held as read.

Declarations of Interest

None

Minutes

Subject to the following, the minutes of the meeting held on 6 March 2018 were confirmed on the motion of Mr Fraser, seconded by Mr Leask.

It was noted that at minute reference 02/18, 'Ms Leask', should read 'Mr Leask'.

09/18 **Presentation from Newton Investment Management**

The Committee and Board considered a report by the Executive Manager – Finance [F-044], which introduced the presentation from Newton Investment Management.

The Executive Manager – Finance introduced the representatives from Newton, Mr J Mitchell and Mr M Brown, who manage a diversified growth fund on behalf of the Pension Fund.

Mr Mitchell and Mr Brown gave a presentation entitled “Shetland Islands Council Pension Fund” (*copy of the presentation pack, tabled at the meeting, is attached as Appendix A*). The presentation included a broad overview of the Fund, Newton’s performance since inception in December 2014, and on Newton’s views and strategy aims going forward.

In responding to questions, Mr Mitchell advised on the criteria and themes to achieve returns within the real return context to be held in the real return Strategy, which he said takes into account a number of factors including stock return volatility.

Responding to comments relating to the disappointing performance and Newton’s conservative approach going forward, Mr Mitchell advised on their frustration at the return, but on their desire to get more in the return seeking core while not jeopardising investors capital at this time. Mr Brown advised on the expectation to see volatility possibly within the next 6 - 9 months, with liquidity reduction from central bank, however should there be no ensuing volatility by 12 months there may be a need to reconsider Newton’s framework.

In responding to questions, Mr Brown reported on the recent improvement in Newton’s performance over the past quarter, and he advised that things can move quickly to get Newton’s performance back on track. He added that the key approach is to be flexible to deal with a range of scenarios going forward.

During the discussion, the Executive Manager - Finance advised on the need, following the recent triennial evaluation of the Pension Fund, for a review to be undertaken of the Pension Fund strategy. In that regard, he advised that investment advisers would be invited to attend a future meeting of the Committee/Board.

The Leader thanked Mr Mitchell and Mr Brown for their presentation.

Decision:

The Pension Fund Committee and Pension Board NOTED the presentation.

10/18

**Management Accounts for Pension Fund Committee:
2017/18 - Draft Outturn**

A report by the Executive Manager – Finance [F-046], enabled the Committee and Board to note the financial performance of the Pension Fund for the 2017/18 financial year.

The Executive Manager – Finance introduced the report, and in referring to Appendix 1 he highlighted the main variances relating to lump sums and transfers into the Fund. He reported that the Pension Fund was in a good position at the end of the financial year, and that he hoped 2018/19 would continue to be positive. He added that there was now a full complement of staff within the Pensions Section, which was a real benefit to the service.

In responding to questions, the Executive Manager – Finance acknowledged the difficulty to plan and set the Pension Fund budget with the current regulations and flexible retirement arrangements, and assumptions have to be made based on historic and current information. He advised that while he had not alluded in the

report to a particular date for the Fund to be fully funded due to uncertainty with yields and bonds which drives liabilities, the triannual valuation had reported good performance, and employer deficits are to be recovered over a period of no more than 20 years.

Decision:

The Pension Fund Committee and Pension Board NOTED the Management Accounts showing the draft outturn position for 2017/18.

11/18

Pension Fund Management Annual Review 2017/18

The Committee and Board considered a report by the Executive Manager – Finance [F-040], which provided information regarding the position and performance of the Pension Fund's external investments, with fund managers for the financial year 2017/18.

The Executive Manager – Finance introduced the report, and advised that the value of the Pension Fund at the end of March 2018 was £459 million. In referring to the Appendix, the Executive Manager – Finance provided the Committee/Board with an overview of each of the five Fund Manager's mandates and performance over 2017/18 and also over a five-year period, or from inception, should that be the shorter timescale. During the discussion, the Executive Manager – Finance responded to questions from Members.

After hearing the Executive Manager - Finance report on Newton's underperformance, he responded to a question advising that each investment management agreement was open ended, and it would be for the Committee to decide if the Strategy should change in any way. In that regard, he reported on proposals for a Review of the Strategy to be undertaken by KPMG, and that a report would be presented to the Committee/Board during this financial year. In response to a question, the Executive Manager – Finance advised that the scope of the Review should cover future expectations and for KPMG to make judgements on and comparisons between the Fund Managers.

In responding to a question regarding the general position of the Pension Fund, the Executive Manager referred to the £6m of surplus delivered during 2017/18, and advised that all the requirements had been met from an administrative perspective and good feedback has been received on customer satisfaction.

Decision:

The Pension Fund Committee and Pension Board NOTED:

- the performance of BlackRock which was close to the benchmark in 2017/18;
- the underperformance of the benchmark and target by KBI in 2017/18;
- the underperformance of the fixed benchmark by Newton in 2017/18;
- the outperformance of the benchmark but underperformance of the target by Schroders in 2017/18;

- the performance of M&G which achieved the fixed benchmark in 2017/18.

The meeting concluded at 4pm.

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Chair