North Yorkshire County Council

Pension Fund Committee

Minutes of the Meeting held on 23 May 2019 at County Hall, Northallerton, commencing at 10 am.

Present:-

County Councillors John Weighell OBE (Chairman), Michael Chambers MBE, Carl Les (as substitute for Angus Thompson), Patrick Mulligan, Andy Solloway and Helen Swiers.

Councillor Jim Clark - North Yorkshire District Councils.

David Portlock - Chair of the Pension Board.

In attendance - Brian Hazeldine (Unison)

There was one member of the public in attendance.

Apologies were received from County Councillors John Blackie, Cliff Lunn and Angus Thompson.

Copies of all documents considered are in the Minute Book

113a. Exclusion of the Public and Press

Resolved -

That the public and press be excluded from the meeting during consideration of Minute No. 117 on the grounds that this involves the likely disclosure of exempt information as defined in paragraphs 2 and 3 of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) Order 2006.

113b. Possible Exclusion of the Public and Press

Resolved -

That should, during consideration of Minute No. 118 - Investment Strategy Review - discussions arise that involve the disclose of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) Order 2006, then the public and press be excluded. The report relating to this item did not contain any exempt information.

114. Minutes

Resolved -

That the Minutes of the meeting held on 21 February 2019 and the special meeting held on 25 April 2019, were confirmed and read and signed by the Chairman as a correct record.

115. Declarations of Interest

County Councillor Carl Les declared a non-pecuniary interest in relation to him being a member of the Pension Scheme.

116. Public Questions or Statements

Dr Tim Thornton, a retired GP from Ryedale, addressed the Committee and highlighted the following statement and questions:

Thank you for the opportunity to speak to you on the subject of reducing and ending fossil fuel investment in the pension funds of North Yorkshire.

Local authorities around the UK have significant funds invested directly in fossil fuels as well as in mixed investment vehicles. Overall in UK authorities, £16 billion of investment in fossil fuels is exposed to an increasing risk of being caught out when the markets suddenly turn. The global coal crash caused an estimated £638 million to be wiped off the value off the UK authorities' pension funds and experts are warning that investors who hold onto investments in oil and gas will also suffer losses soon if they do not divest in time.

We know the impact of fossil fuels on the climate and that we have a very short time to respond to the threat of global overheating. We have already discovered about 5 times the quantity of fossil fuel reserves that theoretically might be exploited and the companies continue to seek out greater resources. If we are to come anywhere near the 1.5ºC maximum for global temperature rise we need to leave over 80% of the known resources in the ground. This would result in huge levels of stranded assets for the fossil fuel companies. This is no longer a matter of 'belief' but an accepted view from the vast majority of serious scientists. The facts are known, it is now for us all to consider how we respond to the challenge.

As with the transition from horse to motorcar, the end of coal fired power stations, the collapse of the asset value in fossils fuels is likely to be rapid and perhaps terminal for the companies. The assets of the pension funds are therefore at risk. This is not just a country GP expressing concern but is backed by Mark Carney who recently stated that the vast majority of the existing reserves of fossil fuels are literally un-burnable.

(The Bank of England issued a Supervisory Statement in April this year, noting the Climate Change and society's response to it, present financial risks which might crystallise out in full over longer horizons, they are becoming apparent now. The Prudent Regulatory Authority at the Bank of England spelled out the areas of challenge and recognises the need to transition the sector's thinking with regard to fossil fuels and their impacts.

I can imagine that the whole spectre of Climate Crisis and the investment decisions that must accompany the concept are burdensome and unprecedented but none of us can escape our responsibilities. You would not be alone in making the move however. Up to the present moment $8.68 trillion has been identified for divestment and the Norweigian Sovereign wealth funds has committed to divest around $7.5 billion of its fossil fuels holdings.

The UK Stewardship Code set out by The Financial Reporting Council also points to the responsibilities of the investors which include - risks that might arise from social and environmental matters.

In the NYCC pension fund strategy it is recognised in sections 6.0 and 7.0 that the Committee retains the responsibility for the investment strategy and asset allocation despite the day to day activity being the responsibility of the Pool.

Client Earth under the leadership of James Thornton, no relation, has listed a few common misconceptions in the relationships between Local Government Pension Schemes and the Local Authorities. It refers to the Keith Bryant QC opinion on the need to assess the financial risks of Climate Change and must take those risks into account when making that investment decisions. He noted that if the Authority failed to take due consideration it could be legally challenged. The opinion points out that the Authority cannot simply delegate the investment decision making to the investment managers, it is the Authority that carries the responsibility for strategic asset allocation.

Similarly delegating engagement activities to the LAPFF or to the Pool is not enough to discharge the rest of the administering authorities' legal duties to address climate risk.

It may be suggested that NYCC needs the cash flow and growth from fossil fuel investment. Somewhat surprisingly the evidence on the financial returns from fossils fuels would have had no impact on the value on the performance of funds.

New York State retirement fund would have been $22 billion dollars better off if it had divested 10 years ago. Nearly $20,000 for each of its funds' members.

Fossil free Standard and Poor Funds have outperformed the same funds with fossil fuels included.

Finally the option to influence large fossil fuel companies just doesn't exist. Their business model is business as usual and exploration for further fossil fuel resources continues unabated.

I would like to pose these questions.

Will the Pension Fund Committee please look at the risk that fossil fuels add to their portfolios, at the levels of exposure, and future expectations of challenges from cheaper and cleaner renewables?

Will the Committee accept the need to move away from fossil fuel investment?

Will the Committee set a short time period to achieve that divestment in order that the Pension Fund is protected from the anticipated or potential brisk drop in value of their pensions?

Dr Margaret Jackson, Senior Partner and GP (Sleights and Sandsend Practice) submitted the following statement which was read out by the Clerk:-

There are strong scientific and moral arguments to support divestment from fossil fuels. The financial and fiduciary arguments are also extremely persuasive.

Fossil fuel investments are widely thought to be overvalued. In order to hold global temperature rises to 2 degrees or less (Paris Climate Accord), 80% of known oil and gas reserves must remain unexploited - rendering them effectively worthless. Investments in extractive companies depend both on the promised value of known reserves as well as on the industry driving forward to prospect for yet more oil and gas. This approach is incompatible with any hope of holding warming to within 2 degrees. An analysis in 2017 by Share Action found that Shell's and BP's business plans are consistent with a 3-5 degree warming or more. This makes these investments highly risky because there are many forces intent on limiting warming to 2 degrees or less.

Renewable energy is gaining ever more market share - being increasingly available and affordable. Once a tipping point is reached ("peak fossil fuels"), it is likely that the value of fossil fuels will plummet substantially, rapidly and permanently rendering investments stranded. Carbon Tracker predict that this could happen in the early 2020s.

Pension fund trustees are legally required to consider climate risk "where it could present financial risks to the fund's investments" (ClientEarth senior corporate lawyer, Alice Garton). Additionally, recent EU law (IORP 2 Directive) mandates the consideration of environmental, social and governance factors by pension fund trustees. So it is necessary that the committee engages with this issue.

The question is asked whether investors should engage fossil fuel companies in an attempt to persuade them to move towards more sustainable energy sources as an alternative to divesting from them. Engagement can be successful in changing something other than a company's core business model. Unfortunately decades of shareholder engagement with fossil fuel companies has failed to make any meaningful changes. In 2017 Shell asked its shareholders to vote against a shareholders' AGM resolution requesting the company set and publish targets for reducing greenhouse gas emissions that align with the Paris Climate Agreement. The resolution was defeated, obtaining just 6.3% of investor support. A year later a similar resolution was defeated with even less than 6% investor support.

Of course the financial risk of an engagement strategy is enormous given the likely steep fall in the value of fossil fuel company assets.

I would therefore ask the committee to seriously consider re-investing its £175 million currently invested in fossil fuels in the same way that other councils in England have already done - South Yorkshire, Haringey, Waltham Forest, Southwark and Hackney.

The Chairman of the Committee provided a response to the public questioners as follows:-

NYPF has a duty to ensure that the Pension Fund is fully funded in order to meet the pensions' benefits due to its members without employers bearing undue contribution levels. In order to do this NYPF determines its investment strategy and appoints Fund Managers to make stock selections to maximise its investment returns.

Fund Managers are well aware of the value of individual stocks and we believe they are best placed to determine the best investment options. That is why we do not direct them to avoid investments in fossil fuels. It is clear, however, that fossil fuel investments are becoming less prevalent as the market recognises the move towards more sustainable energy as it is both environmentally and financially advantageous.

NYPF currently has around £58m (c.1.6% of the Fund) invested in oil and gas/energy sector, some of which will be indirectly invested in fossil fuels. NYPF does, however, recognise that there is a clear move away from fossil fuels to renewables and NYPF also has exposure to renewable energy (approx. £40m).

It must be borne in mind that a sudden disinvestment in all fossil fuels would undermine what is a necessary source of energy today. That will change over time and that can be seen happening as companies are increasingly challenged by shareholders about how they are becoming more sustainable but this transition needs to be managed.

NYPF produces its own Investment Strategy Statement that includes a section on environment, social and governance. NYPF continues to engage with companies on fossil fuels, climate change and investment in carbon stocks through its participation in the Local Authorities Pension Fund Forum (LAPFF). LAPFF's approach is to undertake robust engagement for an orderly carbon transition by requiring companies to identify and tackle carbon risks. The Fund also uses PIRC to exercise voting rights to ensure there is a responsible investment approach. NYPF therefore does recognise the risks associated with fossil fuel investments and envisages an orderly transition away from fossil fuels over the medium term.

It should also be noted that NYPF will, in the future, remain the body responsible for determining asset allocation but the choice of individual fund managers and any restrictions on their activities will be the subject of the Borders to Coast Pension Pool.

He noted that a fuller, written response would be provided to the public questioners in respect of the issues that they raised.

Following the initial questions/statements and response a short discussion took place and the following points were raised:-

- Dr Thornton recognised the difficulties in changes to investments, but emphasised the need for the Fund to consider the potential losses that would arise to the Fund from a move from fossil fuels to renewables over the next few years, and how that may affect investments unless action was taken now.

- In relation to this the Fund's Independent Investment Adviser stated that the new structure for investments, through the Pool, could see a different style introduced in terms of where investments were made, however, as with Fund Managers now, the NYPF would have no control over that. He noted that market conditions could lead to fluctuations in all types of investments and it was not necessarily the case that fossil fuel investments would plummet, as dis-investment would not necessarily take place.

- The Chairman emphasised that the use of fossil fuels was still widespread, particularly in a rural setting such as North Yorkshire and did not consider that investments in those fuels would significantly diminish in the 2020s, suggesting that it was more likely to be the 2030s when a significant downturn in fossil fuel investments would be seen. He noted the significant improvement in air quality over the last 50 years in terms of better use of cleaner fuels.

- The Treasurer stated that North Yorkshire Pension Fund was fully aware of the risks of investments in fossil fuels and the investment strategy would reflect that accordingly. It was noted that Fund Managers were employed to mitigate those risks and would take appropriate action in relation to those.

- Retired Unison Members representative, Brian Hazeldine, outlined his concerns regarding investments that were not taking account of significant environmental concerns. He stated that, as a taxpayer and pensioner, he was keen for the Pension Fund to recognise environmental concerns, to take account of future lives. He suggested that action was required soon, otherwise it could be too late. He asked that the issue be addressed politically and challenges made against investments that did not address ecological and environmental concerns, to ensure that worldwide agreements were being followed and that concerns were being addressed accordingly.

- In response the Chairman noted that over the last ten years there had been much more emphasis on environmental matters and Fund Managers were beginning to take account of those concerns. He emphasised that the matter was complex in terms of investments and further consideration of the issues raised would be undertaken, going forward.

- The Treasurer emphasised that the figure stated within the written statement in relation to investment in fossil fuels by NYPF was not recognised as being an appropriate figure.

- A representative of the Fund's Investment Consultants AON Hewitt, indicated that some Pension Funds were re-investing in relation to environmental issues and noted that the move to BCPP, in terms of the pooling arrangements, would likely address some of the issues raised, in terms of investments in renewable energies and less in fossil fuels, going forward. This was likely to be a longer term aspiration for Investment Managers. A Member noted that action had already been taken to address the situation with possible exposure to fossil fuels being a very small amount of the Fund.

- It was again stated that, a full detailed response would be provided to the questioners and copies would be provided to Members of the Pension Fund Committee.

Minute No. 117 - Death Grant Payment - included confidential details, as outlined in Minute No. 113a, and, as such, the minutes reflect the confidential nature of some of that information.

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117. Death Grant Payment

Considered -

The report of the Treasurer providing Members with information relating to the death of a Scheme Member in April 2014, in order that a decision could be made as to the beneficiary of the death grant now payable.

It was noted that it was an administering authority discretion, under the Regulations, to decide to whom death grants were paid. It was standard practice for the NYPF to pay death benefits in accordance with the nomination form completed by a member, however, the personal circumstances of the Scheme Member had changed prior to their death.

Members were asked to confirm to whom the death grant should be paid. This could be to a single or multiple beneficiary.

Full details of the situation regarding the Scheme Member and family members were outlined and next of kin information was provided.

Members undertook a discussion in relation to the details provided and the next of kin information provided.

Resolved -

That the death grant of the Scheme Member, as outlined in the report, be paid in equal amounts to the children detailed.

Minute No. 118 - Investment Strategy Review - could possibly include the disclosure of exempt information during the discussion of the item, as outlined at Minute No. 113b, and, as such, the Minute below reflects the confidential nature of some of that discussion.

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118. Investment Strategy Review

Considered -

The report of the Treasurer requesting Members to:-

(i) Review and approve the long term Investment Strategy of the Fund as part of the 2019 triennial valuation.

(ii) Finalise the allocation to BCPP's Global Equity Alpha Fund.

(iii) Consider an initial allocation to the BCPP multi-asset credit sub-fund.

(iv) Consider an update on the equity protection implementation.

(v) Consider an update on the UK equity transition.

BCPP's Global Equity Alpha Fund

The Treasurer stated that BCPP had very recently provided details of the Fund Managers for the Global Equity Alpha Fund, however, as the information had only just been received by NYPF it would be impossible to make a decision on this matter at this meeting, as full details had to be considered appropriately. The Treasurer suggested, therefore, that a further meeting be arranged to discuss this matter before the end of June 2019. He stated that the Investment Strategy review was a separate matter to this decision and, therefore, could be considered separately.

Members discussed the initial Fund Manager selection by BCPP for the Global Equity Alpha Fund and the following issues were outlined:-

- Members expressed their significant disappointment that Baillie Gifford had not been chosen to be one of the Fund Managers.

- It was suggested that NYPF may have joined the wrong Pool in terms of how it wished its global equity investments to be implemented.

- Members were advised to be extremely cautious if considering an alternative Pool for investments. Members emphasised that the issue did not relate to the Fund Managers, per se, but the style of investment being offered in terms of global equities through the Pool.

- Members, the Chairman, the Treasurer and Investment Advisers discussed the position in terms of why the Pool was chosen and the restricted timescales in relation to that. It was emphasised that it would be significantly difficult to go through that process again in terms of opting for an alternative Pool.

- The Chair of the Pension Board noted there had been a meeting of Pension Board Chairmen, for those Pension Funds involved with BCPP, the previous day, and he had been party to some discussion with representatives of BCPP at that event.

- It was noted that representatives of BCPP would be attending a meeting with Pension Fund Committee Members on the day following this meeting and further discussions on the appointment of Fund Managers to the Global Equity Alpha Fund could be developed there.

- A Member, whilst having some sympathy with the suggestion of finding an alternative Pool, suggested there would be great difficulty in undertaking this and also NYPF may have problems in identifying an alternative Pool, at this stage. It was also a factor that other Pools may also not provide sub-fund that allow the Investment Strategy which Pension Fund Committee Members preferred to be implemented.

- Members emphasised the need to consider the details outlined by representatives of BCPP at the forthcoming meeting to determine how best to proceed.

- The Fund's Independent Investment Adviser stated that due diligence should be undertaken by the NYPF at this stage in respect of the managers picked to determine what they could offer and how this would affect the Fund's Investment Strategy, going forward.

- It was noted that BCPP were aware that the NYPF would have preferred Baillie Gifford to be one of the Investment Managers for global equities. The Chairman highlighted a number of issues in relation to his service to the Joint Committee of BCPP, the culture of that Pool and the political nature of that. He considered that it would be appropriate to put on hold the commitment to global equities to BCPP at this stage, given the due diligence information provided on the sub-fund. He also considered it appropriate to discuss the matter with representatives of BCPP the day following this meeting before any decisions were made on how to proceed.

- The Treasurer stated that a full explanation would be provided as to the Fund Managers that had been chosen for the global equity portfolio when Pension Fund Committee Members met with representatives of BCPP. He emphasised that additional due diligence would still be required in terms of the appointed Fund Managers in relation to the requirements of NYPF. He noted the discussions earlier in the meeting regarding the possibility of leaving the Pool and emphasised the costs that would be involved in doing that and the difficulty in finding the capacity to undertake the work involved around moving to an alternative Pool.

- The Fund's Investment Consultants and Investment Adviser provided their opinions on this matter highlighting the following:-

  - The Fund Managers chosen followed due process by BCPP.

  - Further talks with representatives of BCPP would allow a deeper exploration of this position

  - Talks with BCPP could continue until a sub-fund better aligned to the NYPF Investment Strategy was offered.

  - Details of the types of questions to ask of BCPP representatives at the forthcoming meeting were outlined.

- Details were provided of the portfolio styles and investment holdings of the chosen Fund Managers. An opinion was provided in relation to their performance how they were rated by the Investment Advisers NYPF.

- The investment style of BCPP, through its appointment of these managers, was discussed.

- ♦ Members emphasised the major contribution that Baillie Gifford had made to the upturn in fortunes of the Pension Fund in recent years and again reiterated their disappointment that they had not been chosen as one of the Fund Managers within BCPP's sub-group for global equities.

- ♦ It was again emphasised that discussions would be taking place with representatives of BCPP on the day following this meeting and further consideration of this matter could be undertaken at that stage.

<u>UK Equity Transition - Update</u>

The Treasurer reported that the transition of the high percent UK equities allocation to the BCPP UK Equity Alpha Fund was approved at the meeting of the Pension Fund Committee on 22 November 2018. The transition of the Funds to BCPP had taken place in May 2019.

<u>Equity Protection Implementation</u>

The Treasurer reported that, following the decision to implement an Equity Protection Strategy by the Committee in February 2019, authority was delegated to the Treasurer, in consultation with the Chair, to select and appoint an Equity Protection Manager.

Presentations were held with the shortlisted Equity Protection Managers prior to the Committee meeting on 25 April 2019. At that time Members were asked to consider their preference on the manager to help inform the selection. After further review from consultants on the details of the terms of the arrangements, the preferred manager had now been selected and terms were in the process of being agreed.

It was noted that action would be taken to undertake the transition of the Funds into this portfolio, as soon as possible, but care would be taken so as not to transfer at a time when markets were at an inappropriate level for this to take place.

<u>Investment Strategy Review</u>

The Treasurer reported that the Fund was currently in the process of undertaking an Investment Strategy review as part of the 2019 Triennial Valuation. Funding levels were much higher than during previous valuations, due to the strong performance of investments seen over recent years and, therefore, it was suggested that the Strategy of the Fund should change to reduce risk and reflect the much improved funding position.

The Committee had already responded to improving funding level and had taken steps to reduce risk in advance of the valuation. Recent changes made to the Investment Strategy and the current actual allocations were outlined in the report.

It was recognised that there was an equity risk to the Fund and the implementation of an equity protection strategy had been approved, in the short term, to reduce equity risk, until a long term strategy was determined and implemented.

The report allowed Members to discuss the Investment Strategy with the Investment Consultants and Investment Adviser and to determine a high level strategy to inform the Triennial Valuation assumptions.

In line with this, AON Hewitt, the Fund's Investment Consultants, provided a presentation, outlining the following:-

Purpose of Today's Meeting

- Agree the objectives for changes to the Investment Strategy.
- Agree investment beliefs of the Committee.
- Agree likely future changes to the long term Investment Strategy and next steps.
- Agree the level of risk to be taken within the long term Investment Strategy and asset allocation for use in valuation.

Agree the Objectives to changes to the Investment Strategy

- Objective - reduce investment risk to lessen the risk of adverse future funding positions: whilst continuing to target levels of expected investment return which do not increase the contribution rate.
- Define benefit liabilities.
- Funding targets.
- Diversification.
- Contributions stability.

Agree investment beliefs of the Committee

- Equity should be main driver of risk and returns.
- Active management can add value (particularly in equities).
- Avoid diversification for diversifications sake.
- Only add new assets when clear benefit and subject to training and suitability.
- Long term investor: can afford some volatility in assets.
- Long term investor: can afford some illiquidity if adds value.

Discussions took place about the objectives for changes and the investment beliefs of the Committee and the following issues were raised:-

♦ It was emphasised that all investments should be the main driver of risk and returns, not just equities.

♦ It was considered that there had been a large amount of diversification over the previous few years, with some being more successful than others. It was emphasised that there had to be some diversification to reduce the risk associated with the current high level of investment in equity, however, efforts would be made to ensure that diversification provided a level of return, similar to that of equities, but without the associated risks. Members stated that they would welcome this approach and emphasised the need to ensure that diversified investments also provided appropriate returns.

Proposed changes to the Investment Strategy

Reduce equity

- Why reduce the equity allocation
  - The Fund had enjoyed very strong returns from its equity allocation over ten years.
  - The Fund had a large allocation to equities and markets were expected to be volatile.
  - The biggest investment risk the Fund faced was a fall in equity markets.

- Steps to implementation

  - Reduce equity risk in short term using equity options.
  - Continue training on alternatives with BCPP on implementation.

- Sell equities and buy alternatives when appropriate.

Introduce illiquid growth

- Why invest in illiquid growth assets such as infrastructure
  - Capture an illiquidity premium available to the Fund due to its long term investment time horizon.
  - It is often with inflation linked income.
  - Provides diversification from equities.

- Risk/return
  - Risk - less opportunity with core/lower risk assets.
  - Risk - typically closed ended funds with 12-25 year lock-ups.
  - Return - more opportunity globally with core plus/value added managers.
  - Return - sufficient opportunities for skilled managers.

- Steps to implementation
  - Continue training on illiquid growth assets.
  - Work with BCPP on implementation.
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Introduce liquid credits

- Why invested in liquid credits
  - Liquid credit provides a fund with lower expected levels of risk and return than equities but higher expected return than gilts together with some diversification benefit.
  - Very broad investment universe.
  - Credit premium of the underlying assets provides a large portion of overall returns.
  - Multi asset credit managers add value by rotating across sectors and/or by security selection sectors.

- Steps to implementation
  - Continued training on credit and multi-asset credits.
  - Work with BCPP on implementation.
  - Invest when suitable funds available.

Replace DGF allocation with other absolute return strategies

- Why replace DGF
  - Displayed high correlation to traditional markets and can be dominated by equity risk.
  - Require a wide managed skillset.
  - Relatively expensive.
  - Performance generally being disappointing.

- Steps to implementation
  - Continued training on alternatives to DGF.
  - Work with BCPP on implementation.
  - Invest when suitable funds available.

The following issues and points were raised during discussion of the proposed changes:-

♦ Other Funds were in a similar position to NYPF regarding equities and were also looking to control risk although NYPF was in a much stronger funding position than many other funds.

♦ The equity protection was in place to allow the new strategy to be created and the de-risking to take place.

♦ Illiquid growth suited the North Yorkshire Pension Fund objectives and views on investments. It was noted that this was mainly infrastructure and private equity. Further discussion on that matter would be undertaken with BCPP at the forthcoming meeting with their representatives.

♦ It was expected that BCPP would provide assistance with the development of liquid credit. This investment category was a medium risk, fixed income strategy. Members emphasised that they need to know about this category of investment, as, previously, during the markets crash in 2008, some investments had led to the Fund facing large losses. This position was acknowledged and work would be undertaken with the Committee in relation to how this particular investment operated.

♦ In relation to the replacement of DGF with absolute return strategies it was noted that work would be undertaken alongside BCPP to develop this investment and part of the presentation at the forthcoming meeting with BCPP representative would address this matter.

♦ Members again expressed the view that reducing the exposure to equities could, in turn, reduce returns and lower the current funding level. Representatives of the Investment Consultants agreed and emphasised the need to ensure that the new investments undertaken, if agreed, would generate appropriate returns whilst reducing the risk of equities. Members emphasised that there was a major balancing exercise to be undertaken to ensure that exposure to equities was not too low so as to significantly reduce returns.

Asset Allocation for Valuation - Risk Reduction

The presentation provided details of each asset class group, the current strategy, allocation to each asset class group for a 10% lower risk strategy and similarly for a 20% lower risk strategy. Key statistics were provided in relation to how the Fund would be affected in terms of implementing the 10% lower risk strategy and, in comparison, the 20% lower risk strategy. Members were asked to consider the details and decide which strategy they would prefer to adopt.

Members discussed the implications of adopting a 10% lower risk strategy as opposed to the 20% lower risk strategy and the following issues and points were raised:-

- Clarification was provided that a range of allocations was available for each asset class group within the Strategy, however, for the purposes of this exercise a definitive point had been outlined.

- The details provided related to the long term strategy in accordance with the details required by the actuary.

- It was noted that the balancing of the risk position had to be made against potential gain.

- It was clarified that the details being considered at the meeting related to what was required by the actuary at this stage in terms of the Triennial Valuation and additional factors would be fed into the process before the valuation was undertaken.

Resolved -

(i) That a special meeting of the Pension Fund Committee be arranged for 20 June 2019 at 11 am;

(ii) That the long term Investment Strategy of the Fund to inform the 2019 triennial valuation assumptions be agreed, together with the following specific issues:-

(a) that the objectives for changes to the Investment Strategy:-

- to reduce investment risk to lessen the risk of adverse future funding positions, whilst continuing to target levels of expected investment return which did not increase the contribution rate through defined benefit liabilities, funding target, diversification and contributions stability, be agreed;

(b) that the following investment beliefs of the Committee be agreed:-

- equity should be the main driver of risk and returns
- active management can add value
- avoid diversification for diversifications sake
- only add new assets when clear benefit and subject to training and suitability
- long-term investor: can afford some volatility in assets
- long-term investor: can afford some illiquidity if adds value;

(c) the following proposed future changes and next steps to the Investment Strategy be agreed:-

- reduce equity
- introduce illiquid growth
- introduce liquate credit
- replace DGF with other absolute return;

(d) that a 10% lower risk strategy, as outlined in the presentation, be agreed.

(iii) That the final commitment to the BCPP Global Equity Alpha Fund be deferred for consideration at the special meeting arranged for 20 June 2019.

(iv) That an initial indicative allocation to multi-asset credit be deferred for further consideration, following discussions with representatives of BCPP at a meeting to be held on 24 May 2019.

(v) That the update on the equity protection implementation be noted.

(vi) That the update on the UK equity transition be noted.

119. Performance of the Portfolio

Considered -

The report of the Treasurer providing details of the investment performance of the overall Fund, and of the individual Fund Managers, for the period to 31 March 2019.

The report indicated that the absolute overall return for the Quarter (8.3%) was above the customised benchmark for the Fund (7%) by 1.3%.

The 12 month absolute rolling return was -2.1%, 0.9% above the customised benchmark of -3%. The report provided details on individual Fund Manager's performance in respect of the following asset classes:-

♦ Overseas equities.

♦ Global equities.

♦ UK equities.

♦ Fixed income.

♦ Property.

♦ Diversified growth funds.

♦ Private debts.

♦ Insurance linked securities.

♦ Cash investment.

Details relating to risk indicators, solvency, re-balancing and proxy voting were also provided.

The Fund's Investment Consultants, AON Hewitt, provided an in-depth analysis of the investment performance.

The performance was discussed with Members and the following issues and points were highlighted:-

- There had been a significant “bounce back” during Quarter 1, in comparison to Quarter 4 2018/19.

- Previously, Quarter 4 had seen a 10% fall in the value of the Fund, which had resulted from market volatility due to increased USA interest rates and poor market liquidity.

- Quarter 1 had seen strong returns following the non-occurrence of expected interest rate rises in the UK and the basis for a strong recovery could be seen.

- Details of the Quarter 1 performance of Fund Managers were outlined and it was noted that all had performed well.

- Issues around the insurance linked securities portfolio were outlined. It was noted that the impact of a number of worldwide natural disasters in Quarter 4 had been felt by this portfolio, however, Quarter 1 had not seen significant incidents occurring, which had led to an increase in performance. It was asked whether climate change had an impact on this investment area and clarified that this was unlikely.

- A Member highlighted the consistent outperformance of the benchmark by Baillie Gifford as detailed in the information provided.

- The performance of the bond investments with M & G were highlighted and issues around the good returns seen from that investment were discussed.

- It was stated that overall, Quarter 1 had seen a good performance for the Fund’s investments.

Resolved -

That the investment performance of the Fund for the period ending 31 March 2019 be noted.

The meeting concluded at 1.40 pm

SLJR