MINUTES of the meeting of the **SURREY PENSION FUND BOARD** held at 9.30 am on 15 November 2013 at Committee Room A, County Hall.

These minutes are subject to confirmation by the Committee at its meeting on Friday, 14 February 2014.

Elected Members:

* Ms Denise Le Gal (Chairman)
* Mr Nick Skellett CBE (Vice-Chairman)
* Mr W D Barker OBE
* Mr Mike Goodman
* Mr John Orrick
* Mr Stuart Selleck

Ex officio Members:

Mr David Munro, Chairman of the County Council
Mrs Sally Ann B Marks, Vice Chairman of the County Council
Mr David Hodge, Leader of the Council
Mr Peter Martin, Deputy Leader

Co-opted Members:

* Mr Tony Elias, District Representative
* Judith Glover, Borough/District Councils
* Ian Perkin, Office of the Surrey Police and Crime Commissioner
Philip Walker, Employees

In attendance

Paul Baker, Pensions Manager
Cheryl Hardman, Regulatory Committee Manager
John Harrison, Surrey Pension Fund Advisor
Sheila Little, Chief Finance Officer (Section 151 Officer)
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Manager – Pension Fund & Treasury
Steve Turner, Partner, Mercer

37/13 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Philip Walker.

38/13 MINUTES OF THE PREVIOUS MEETING: 20 SEPTEMBER 2013 [Item 2]

The minutes were agreed as an accurate record of the meeting.

39/13 DECLARATIONS OF INTEREST [Item 3]

There were none.

40/13 QUESTIONS AND PETITIONS [Item 4]

There were none.

41/13 ACTION TRACKING [Item 5]

Declarations of Interest:
None.

Key Points Raised During the Discussion:

1. In relation to A6 (equity derivatives), the Strategic Manager – Pension Fund & Treasury suggested that a discussion on equity derivatives could be scheduled for the February 2014 meeting of the Board. This discussion would focus on equity futures.

Actions/Further Information to be Provided:
The recommendation tracker to be updated to reflect the discussion, as noted above.

Resolved:
That the actions tracker was noted and the committee agreed to remove page 172 of the tracker as the actions were completed.

Next Steps:
None.

42/13 PENSION FUND ADMINISTRATION STRATEGY [Item 6]

Declarations of Interest:
None.

Key Points Raised During the Discussion:

1. The Pensions Manager introduced the report, highlighting that although an administrations strategy was not compulsory, it was good practice. The proposed strategy was not contentious and mainly formalised the existing position.

2. In response to a query, the Pensions Manager responded that the Strategy would not materially increase the administrative workload as it was not intended to report on all activities. There was need to balance the benefits of monitoring practice with workload pressures. It was proposed to use the key performance indicators (KPIs) which already exist to monitor performance against the administration strategy. If there are problems with any employers this was likely to be fairly transparent.
3. The Pensions Manager confirmed that a Benefit Statement has to be provided annually. However, it was possible that in future, statements could be put online to enable Member self-service. Some members will probably still want hard copy Benefit Statements.
4. Members asked whether the administering authority was striving to receive all data from scheme employers electronically. The Pensions Manager agreed that the authority was seeking to increase the proportion of data provided electronically but highlighted the variations between employers and the different levels of resource they have to make such adjustments.

Sheila Little joined the meeting.

5. A Member asked, given the responsibility of employers to ensure that all information provided is correct, whether employers are shown a copy of the data inputted. The Pensions Manager responded that the employee would have the opportunity to check details such as change of hours in their Annual Statement.
6. There was a discussion about ex gratia payments made by the employer, for example, as part of a redundancy package. The Pensions Manager confirmed that this would not go through the Pension Fund and that it was not the Surrey Pension Fund's role to monitor redundancy payments made by employers. If pension benefits were augmented through additional years, the employer would be charged. The scheme employer would invariably bear the cost as a lump sum although they do have the option of spreading the cost over three years.
7. The Chairman congratulated officers for a concisely written strategy.

Actions/Further Information to be Provided:
None.

Resolved:
That the Pension Fund Administration Strategy be APPROVED for consultation with scheme employers.

Next Steps:
A further report will be submitted on the outcome of the consultation with scheme employers.

43/13 KEY PERFORMANCE INDICATORS [Item 7]

Declarations of Interest:
None.

Key Points Raised During the Discussion:

1. The Strategic Manager – Pension Fund & Treasury introduced the item, tabling an updated copy of the key performance indicators (KPIs) (attached as Annex 1). He stressed that the red indicators only highlighted slight variances and were not significant.
2. There was a suggestion that while the achievement against targets was good, some of the targets may be too low. As an example, the 'Transfers In' target was 85% and actual performance was 99%. The Pensions Manager explained that the targets were set for the full twelve months and that, while on a quarterly basis performance may look particularly good, the averaged out performance may be closer to 85%. However, this would be looked at again (**Action Review ref: A7/13**).
3. A Member asked what the administration cost per scheme member was. The Pensions Manager informed the Board that the cost per member was around £16 per annum, while the UK average cost per pension fund member was around £20 but he would confirm the actual figures at the next meeting (**Action Review ref: A8/13**).
4. It was suggested that the word "all" be removed from "all relevant Communications Material will be posted onto website within one week of being signed off", if the target was only 85%.
5. The Strategic Manager – Pension Fund & Treasury clarified that the funding level refers to the Surrey-wide fund. Each employer would have its own funding level. Some District and Borough Councils have a funding level into the mid to late 70% while some employers would have a much lower funding level. Employers also have different member profiles.

Actions/Further Information to be Provided:

i. 'Transfer in' targets to be reviewed.
ii. The administration cost per scheme member to be confirmed.

Resolved:
That the KPI statement format be APPROVED.

Next Steps:
None.

44/13 PENSION FUND RISK REGISTER [Item 8]

Declarations of Interest:
None.

Key Points Raised During the Discussion:

1. The Strategic Manager – Pension Fund & Treasury introduced the item, highlighting the addition of a new column which shows the net risk score after mitigating actions have been taken into account.

2. The Strategic Manager – Pension Fund & Treasury informed the Board that the "pensioners living longer" risk had been reassessed and now was rated the number one risk to the Pension Fund. The net risk score also highlighted the negligible impact that mitigating actions could have on this risk. Officers agreed with the Board that the impact on employers of pensioners living longer should have been 4 rather than 5 as the rating scheme was 1-4. However, this remained the number one risk.
3. There was some debate about the ranking of pensioners living longer at the top of the risk register as it was felt by some that there was a clear trend for demographics while markets remain unstable. While the implications of demographic change could be a strain, mitigating factors such as a later retirement age and increased contribution rates could impact on this. The Surrey Pension Fund Advisor also mentioned that 2012 was the first year since the Second World War when there was no improvement to longevity. It may be that the trend of lengthening life spans may have reached its peak. The Chairman suggested that the issue be brought up with the Actuary and considered at the next meeting.
4. Officers highlighted the introduction of the new risk "rise in ill health retirements impact employer organisations". As no decision on mitigating actions had yet been taken on this, the net risk score was no different to the total risk score.

Ian Perkin joined the meeting.

5. Some concern was expressed about the potential for complacency where risks have been downgraded to amber following mitigating actions. However, it was stressed that the Board would continue to look at what further mitigating actions could be taken to address risks.
6. There was some discussion about the necessity for risk 11 "investments markets to fail to perform in line with expectations" to be included in the register given the presence of other more specific investment risks. The Mercer representative suggested that risk 11 related to the triennial full actuarial valuation.
7. It was suggested by a Member that the financial risk range would be valuable information. The Mercer representative agreed that this could be easily calculated for certain risks and would be done as part of the actuarial process. The Chairman asked that the financial risk range be represented for the residual red risks. The Vice-Chairman suggested that risks could be quantified in monetary terms during discussions. The Chief Finance Officer suggested that the benefit of presenting such information would be to enable Members to consider the cost of mitigating actions against the financial risk to the Council.
8. It was suggested that the risk of increases to employer contributions following the actuarial valuation be included in the register. The Strategic Manager – Pension Fund & Treasury informed the Board that the full actuarial valuation would come to the Board in February 2014. The risk of increases to employer contributions could be included within the risk register.

9. There was a discussion about Risk 3 “failure to take difficult decisions inhibits effective Fund management”. It was felt that the Board was not likely to shy away from making difficult decisions, particularly at this point in the election cycle. However, it was accepted that the risk may increase as the next Council elections approach. The Chairman agreed that the Board does have significant checks and balances, with excellent officer support, consultancy advice and varied Member experience. However, it was also stated that humans are able to make errors and that the Board should be wary of optimism bias.

Actions/Further Information to be Provided:

i. To further discuss the risk of pensioners living longer at the next meeting of the Surrey Pension Fund Board (**Action Review ref: A9/13**).
ii. The financial risk range to be represented for the residual red risks (**Action Review ref: A10/13**).
iii. The risk of increases to employer contributions following the actuarial valuation to be included in the risk register (**Action Review ref: A11/13**).

Resolved:
That the Risk Register be NOTED, and the suggested amendments/additions be considered by officers.

Next Steps:
The Risk Register will be reported to the Board on a quarterly basis.

45/13 REVISED STATEMENT OF INVESTMENT PRINCIPLES [Item 9]

Declarations of Interest:
None.

Key Points Raised During the Discussion:

1. The Strategic Manager – Pension Fund & Treasury introduced the item, highlighting the revisions to the Statement of Investment Principles which concerned the addition of a number of private equity funds on page 199.

Actions/Further Information to be Provided:
None.

Resolved:
That the revised Statement of Investment Principles be APPROVED.

Next Steps:
None.

46/13 LGPS: CALL FOR EVIDENCE ON THE FUTURE STRUCTURE OF THE LOCAL GOVERNMENT PENSION SCHEME [Item 10]

Declarations of Interest:
None.

Key Points Raised During the Discussion:

1. The Chairman informed the Board that she was sitting on the Shadow Local Government Pension Scheme (LGPS) Advisory Board as the Conservative and County Council representative. The Advisory Board was chaired by the Chief Executive of the National Association of Pension Funds and included representatives from the Trade Unions and four local authorities. The Advisory Board was considering all submissions in response to the call for evidence on the future structure of the LGPS. So far, there had been 129 responses, including 70 from local authorities. The submissions were highly resistant to the concept of 'super funds'. Funds were supportive of mergers only if they were to be the ones in charge and there were clear benefits to doing so.
2. The Chairman informed the Board that the Surrey Pension Fund had been approached by a few councils with regard to the possibility of collaborating on some functions. These were well-funded Pension Funds.
3. Members informed the Board that at another conference participants were positive about restructuring, dependent on it being a voluntary process. A further train of thought was that while whole Funds may not be merged, assets may be merged.
4. There was particular concern about the difficulties involved with deficit sharing.

Actions/Further Information to be Provided:
None.

Resolved:
That the response submitted by the Chief Finance Officer to the Department for Communities and Local Government be **NOTED**.

Next Steps:
None.

47/13 ILL HEALTH RETIREMENT INSURANCE [Item 11]

Declarations of Interest:
None.

Key Points Raised During the Discussion:

1. The Pensions Manager introduced the item, explaining that now appeared to be an appropriate time to consider insuring against ill health retirement costs because individual cost of ill health retirements would increase with the new LGPS coming into effect in April 2014, while Legal & General had recently significantly reduced their premium rates from 0.85% to 0.63%. He also explained that purchasing a policy on a whole fund basis would result in lower premiums and easier administration. It was proposed that before contractually

committing the Council, procurement advice would be sought from the Head of Procurement.

2. Members asked whether the costs of ill health retirements once the pension accrual rate had been increased to 1/49th could be calculated. The Pensions Manager stated that it would be costly to undertake that calculation at this time but that the cost to the Fund would increase.
3. Members asked for clarification that all employers would not need to agree before this insurance was taken out. Officers confirmed that this was the case.
4. In response to a query, the Chairman agreed that the risk of ill health retirements was greater for smaller employees than for the County Council but stressed the paternalistic purpose of the Pension Fund Board.
5. Members queried the impact on the employee of having to wait a period of time for the insurance company to settle a claim. Officers assured the Board that this insurance would not impact on the employee's right to receive an ill-health pension as the employee has a statutory right to their pension. The Fund would pay this and then negotiate with the insurance company for reimbursement. If there is any prevarication with claims, this would be reported back to the Board and the decision could be taken to stop using the company.
6. Members asked if the insurance covers all eventualities. Officers confirmed that the insurance would cover all Tier 1 and Tier 2 retirements.
7. It was suggested that this insurance was not a good deal for the Fund as staff were not in risky employment such as mining. However, it was also acknowledged that there was an increasing trend for ill health retirements. The Pensions Manager also highlighted the potential risk to the Pension Fund if small employers went out of business because of the cost of ill health retirements.
8. There was a query about whether insurance would lead to changes in behaviour; for example, whether employers would be more likely to agree to ill health retirements. The Pensions Manager informed the Board that an independent medical practitioner had to sign off on an ill health retirement and that it was very difficult to put pressure on them to approve an unnecessary retirement.
9. The possibility of running an internal pooling arrangement to self-insure against ill health retirements was discussed. This would avoid the Fund being exposed to the profit element of the insurance business. The Pensions Manager informed the Board that the actuary had been asked about the feasibility of self-insurance but that his view was that this was not feasible. There was some support for looking at the option of self-insurance further.

Actions/Further Information to be Provided:
None.

Resolved:
That a further report on ill health insurance be brought back to the next meeting, including information on the self-insurance option (**Action Review ref: A12/13**).

Next Steps:
None.

The Surrey Pension Fund Board adjourned its meeting at 11am and reconvened at 12.30pm.

48/13 MANAGER ISSUES AND INVESTMENT PERFORMANCE [Item 12]

Declarations of Interest:
None.

Key Points Raised During the Discussion:

1. The Strategic Manager – Pension Fund & Treasury introduced the report. He informed the Committee that Capital Dynamics had drawn down on 70-80% of the fund. The full requirement of £20m had been forwarded to Darwin.
2. The Board was informed that about 60-65 acceptances to the Surrey Pension Fund AGM had been received.
3. The Strategic Manager – Pension Fund & Treasury reported that stock lending had started on 4 November 2013.
4. The Board heard that the stock voting policy was now up and running. Where there are voting issues which attract publicity and/or are contentious, the Chairman of the Board would be involved and perhaps the whole Board.
5. The Surrey Pension Fund Advisor reported to the Board on the meetings with external fund managers. Notes of the meetings with external fund managers were tabled and are attached as Annex 2.
6. The Strategic Manager – Pension Fund & Treasury introduced the Financial and Performance Report, highlighting the increased fees paid to UBS and Majedie. This was due to their having invoiced for performance related fees following strong performance.
7. There was a discussion about whether there was a need to rebalance the Fund. It was agreed to keep the current asset allocation as it is but to reconsider the new Standard Life fund at the next meeting.
8. The Strategic Manager – Pension Fund & Treasury informed the Board that the Surrey Pension Fund was on the long list for Large Fund of the Year and Corporate Governance at the LGC Awards 2013 to be announced on 11 December 2013.

Actions/Further Information to be Provided:
To reconsider the new Standard Life fund at the next meeting.

Resolved:

i. To APPROVE the report and the decisions as laid out;
ii. To APPROVE the Surrey Pension Fund making a USD 25m commitment to the Global Clean Energy and Infrastructure Fund;
iii. To APPROVE the Surrey Pension Fund making a £20 commitment to the Darwin Property Fund.

Next Steps:
None.

49/13 DATE OF NEXT MEETING [Item 13]

This was noted.

Meeting ended at: 12.55pm

Chairman

KPI - DETAILED ACTIONS, TIMESCALE AND REPORTING REQUIREMENTS: To 30 September 2013 **Annex 1**

No	Description	Target	Lead Officer	Actual (Score and RAG)	Reporting Period	Previous Score	Date Last Reported	Improvement/Deterioration
1	FUNDING							
	IMPROVE FUNDING LEVEL Funding level to increase from current levels of 72%	**100%**	PT	**72.3%**	31/03/13	**72.0%**	31/12/10	⇨ 0.30%
2	PPENSION ADMINISTRATION							
	DEATH BENEFITS Notify potential beneficiary of lump sum death grant within 5 days	**95%**	PB	**100.00%**	3 months to 30 Sep 13	**100.00%**	3 months to 30 Jun 13	⇨ 0.00%
	Write to dependant and provide relevant claim form within 5 days of notification of death	**90%**		**98.15%**	3 months to 30 Sep 13	**96.08%**	3 months to 30 Jun 13	⇧ 2.07%
	Pay death grant within 5 days of receipt of relevant documentation	**90%**		**100.00%**	3 months to 30 Sep 13	**100.00%**	3 months to 30 Jun 13	⇨ 0.00%
	Issue notification of dependant's pension within 5 days of receipt of relevant claim forms	**90%**		**100.00%**	3 months to 30 Sep 13	**100.00%**	3 months to 30 Jun 13	⇨ 0.00%
	RETIREMENTS Retirement options to members within 10 days	**90%**	PB	**92.66%**	3 months to 30 Sep 13	**94.19%**	3 months to 30 Jun 13	⇩ -1.53%
	New retirement benefits processed for payment following receipt of election within 10 days	**95%**		**97.89%**	3 months to 30 Sep 13	**99.63%**	3 months to 30 Jun 13	⇩ -1.74%
	BENEFIT STATEMENTS ABS issued to 95% of eligible active members by 30th September	**95%**	PB	**100.00%**	3 months to 30 Sep 13	**Pending**	3 months to 30 Jun 13	
	DBS issued to 85% of eligible deferred members by 30th June	**95%**		**100% issued by 26/09/13**	3 months to 30 Sep 13	**Pending**	3 months to 30 Jun 13	
	NEW JOINERS New starters processed within 20 days	**85%**	PB	**96.39%**	3 months to 30 Sep 13	**98.85%**	3 months to 30 Jun 13	⇩ -2.46%
	TRANSFERS IN Non LGPS transfers-in quotations processed within 20 days	**85%**	PB	**99.07%**	3 months to 30 Sep 13	**100.00%**	3 months to 30 Jun 13	⇩ -0.93%
	Non LGPS transfers-in payments processed within 20 days	**85%**		**99.07%**	3 months to 30 Sep 13	**100.00%**	3 months to 30 Jun 13	⇩ -0.93%
	TRANSFERS OUT Non LGPS transfers-out quotations processed within 20 days	**85%**	PB	**100.00%**	3 months to 30 Sep 13	**94.29%**	3 months to 30 Jun 13	⇧ 5.71%
	Non LGPS transfers out payments processed within 20 days	**85%**		**100.00%**	3 months to 30 Sep 13	**94.29%**	3 months to 30 Jun 13	⇧ 5.71%
	MATERIAL POSTED ON WEBSITE All relevant Communications Material will be posted onto website within one week of being signed off	**95%**	PB	**Achieved**	3 months to 30 Sep 13	**Achieved**	3 months to 30 Jun 13	
3	CUSTOMER SERVICE							
	EMPLOYER SATISFACTION/SURVEY Overall satisfaction score for employers to be 80%	**80%**	PT/PB	**Data pending**	12 months to 31 Mar 14	**Data pending**	12 months to 31 Mar 13	
	MEMBER SATISFACTION/SURVEY Overall satisfaction score for members to be 80%	**80%**	PB	● **97%**	12 months to 31 Mar 14	**Data pending**	12 months to 31 Mar 13	
4	INVESTMENT PERFORMANCE							
	INVESTMENT RETURNS/OVERALL FUND PERFORMANCE Returns to at least match the benchmark	**Benchmark**	PT	**BENCHMARK 12.5%**	12 months to 30 Sep 13	**BENCHMARK 12.7%**	12 months to 30 Jun 13	⇩ -0.90%
				ACTUAL 15.7%	12 months to 30 Sep 13	**ACTUAL 16.8%**	12 months to 30 Jun 13	
5	DATA							
	DATA QUALITY Data quality within the Fund should be at least 90% accurate.	**90%**	PB	● **99%**	12 months to 31 Mar 13	**Not available**	12 months to 31 Mar 12	
6	CONTRIBUTIONS							
	CONTRIBUTIONS RECEIVED **Pension Fund** 98% (total value) of contributions to be received by 21st day of the ensuing period.	**98%**	PT	**98%**	Oct-13	**99%**	Jul-13	⇩ -1.00%
7	AUDIT							
	CLEAN AUDIT REPORT Receive an unqualified audit opinion from the external auditors	**Clean Report**	PT/PB	**Achieved**	12 months to 31 Mar 13	**Achieved**	12 months to 31 Mar 12	
	Annual audit returns no significant findings	**No significant findings**		**Achieved**		**Achieved**		
8	COST							
	COST PER MEMBER Administration cost per member to remain in lowest CIPFA benchmarking quartile	**< lowest quartile**	PT/PB	**Achieved**	12 months to 31 Mar 13	**Achieved**	12 months to 31 Mar 12	

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Notes from Meetings with Fund Managers: 7 November 2013

Hosted by Baillie Gifford.

Manager	Attending
Majedie	Simon Hazlitt
UBS	Digby Armstrong Steve Magill Richard West
Western	Marian George Paul Shuttleworth
Baillie Gifford	Anthony Dickson David McIntyre

Majedie

1. Met with Simon Hazlitt (SH) from Majedie.

2. Majedie presented another quarter of strong results with gross return of 9.0% versus the benchmark of 5.6%.

3. Majedie acknowledged that, whilst they had been able judge past economic environments well, they were less successful in their timing of the changes to the portfolio. There was a desire to move ahead of market changes and potentially miss some upside than have to move in a downward market.

4. The relatively small size of the fund does allow for rapid portfolio transitions without significant market distortion.

5. Majedie reported a slight shift into a more defensive stock allocation, although SH pointed that the move was not into what are often classed as defensive stocks, e.g., utilities and consumer staples.

6. In response to questioning as to whether the adjustment was down to valuations or due to an opinion regarding market sentiment, SH reported that the main driver of the change was due to valuations but as managers they could not rely solely on valuations and that sentiment was important but not an overriding factor. Resilience to a normalisation of QE was a primary feature of stock and sector choices rather than traditional ‘defensive’ characteristics.

7. Majedie were overweight telecommunications in UK and in Europe. The lack of infrastructure investment in the sector throughout Europe has resulted in a significant gap between US and European capacity and high speed coverage. In order to redress that gap the EU regulator is showing signs of softening the approach to price controls and may allow price increases to encourage investment. The level of consumer demand for electronics should be secure in the face of price increases.

8. Majedie holds a large overweight position in BAE Systems which, along with other defence suppliers such as Lockheed Martin, have held up well with decent results given poor fiscal positions in the UK and US and is well placed for future returns.

9. Majedie also reported a recent increase in the holdings of Shell following positive communication with management about the potential for cutting back on ambitious and expensive capital expenditure. In response to questions about the potential decline in the oil price impacting upon both Shell and BP, SH responded by saying that the oil majors were not overly correlated to the price of oil.

10. Majedie presented a view that the potential for declining commodity prices would lead into a better environment for consumer spending. This would be beneficial for a key portfolio holding, Marks and Spencer. Majedie were also positive for the potential upside for M&S. Interestingly, because the existing management systems were very limited, M&S are unable to ascertain the profitability for each item sold.

UBS

1. Digby Armstrong, Steve Magill and Richard West presented.

2. In response to questions about the performance fee, UBS mentioned that 70% of their value clients were also on performance fees.

3. UBS reported strong results for the quarter with positive returns from a large holding in Lloyds Banking Group.

4. The main drag on performance was from a large overweight position in BP, which remained flat against a rising market. UBS is still overweight BP which has recently reported decent results following the end of the quarter.

5. Strong performance for a number of equities had pushed them above perceived fair value and UBS had begun selling down stakes in ITV, the house builder Taylor Wimpey and Daily Mail General Trust.

6. UBS reported recent positions within a number of large cap stocks that have underperformed the market. UBS had bought an increased stake in Shell, arising from a belief in the new management's commitment to more frugal capital expenditure.

7. UBS had also bought back into Rio Tinto and Standard Chartered.

8. UBS was underweight consumer staples: as defensive stocks with high yields, they have similar qualities to bonds and could suffer from interest rate rises. In contrast UBS was overweight consumer discretionary stocks, poised to benefit from a recovering economy and were attractively valued.

9. UBS were evaluating the potential for investing in support services companies, such as G4S and Serco. Both have recently changed management and UBS were positive about the appointments but the valuations were still considered reasonably high.

Western

1. Marian George and Paul Shuttleworth from Western presented.

2. Western reported the portfolio was well positioned in the face of significant volatility. The first six months of the new year was characterised by central bank activity, especially the decision by the Federal Reserve not to taper the asset purchasing programme in September.

3. The Federal Reserve surprised the markets leading to a dramatic sell off in more secure assets as investors sought yield again. This volatility led to aggravated price movements in more illiquid emerging market positions. Western believed that there was significant opportunity for good value in illiquid emerging markets areas, especially in sovereign debt, following future tapering decisions. Brazilian government debt was yielding around 12% but substantial currency fluctuations were a cause for concern.

4. Western had taken a position in Russian sovereign debt denominated in Euros.

5. The portfolio is positioned underweight to UK and supranational government debt as well as financials with overweight positions in UK asset back securities, high yield and investment grade bonds.

6. A drag on performance during the quarter was an underweight position in utilities which performed strongly.

7. The quarter was marked by huge corporate issuance in the US, with Apple bringing £17bn and Verizon £10bn to the market, in contrast to low UK and European bond issuances. The margin between the corporate bond spread for UK and US has grown significantly throughout the year.

8. Western was positive on the long term strength of Verizon and participated in the issuance with market spreads reducing from over 200bps at the time of issuance in late August to 160 in mid October.

9. Western were cautious about the lack of growth in corporate revenues, with significant pressure from shareholders to continue dividend growth or share buybacks, resulting in declining dividend cover. Siemens had recently announced a significant share buyback programme from cash reserves.

Baillie Gifford

1. Met with Anthony Dickson and David McIntyre.

2. Baillie Gifford (BG) reported that recent scenario analysis was focused entirely on the potential market conditions arising from different QE outcomes.

3. As a result of this analysis, BG have become more selective on which emerging market bonds are included within the portfolio, avoiding countries that, in the short term, are more dependent upon external capital flows. BG are negative on Brazilian sovereign debt due to a sizable current account deficit. In contrast, BG are overweight on Peru with a much stronger current account position.

4. BG outlined recent changes to the portfolio asset allocation, including a reduction in the weighting for insurance linked bonds by 2%. This asset class returned 11% during the previous 12 months, partly as a result of the absence of significant natural catastrophes and partly from an increased capital inflow into the asset class. Whilst this provided a capital value boost, it has reduced the yield from new issuance.

5. There will still be opportunities within the asset class for certain perils due to instances of supplier demand imbalance.

6. BG increased the portfolio exposure to bonds with an increase in high yield and investment grade as well as a doubling of the size of the exposure to government bonds to 6%. BG believed that the recent increases in gilts implied a more rapid increase in interest rates than the UK economy would sustain. Government bonds would also act as a safe haven in the event of market uncertainty. The allocation to cash was reduced in order to fund the bond increase.

7. BG reported a recent investment in German residential property in the form of listed equities. The rationale was that with a significant contrast between economic growth in Germany with that of other EU countries, low interest rates and higher national inflation would push German savers to invest in property. Mortgage affordability and other metrics point to an increasing demand for German housing, whilst rent price controls significantly limit demand for construction.

8. BG have added an exposure to platinum and palladium, a belief that a number of mines and factories are processing the metals at a loss and as a result of worker unrest in South Africa, wage inflation is estimated to rise, with the likely outcome of significant drops in output.

9. BG argued that in general most asset classes were fair value whilst some were overvalued, but that an economic recovery was priced in. BG were concerned that if economic conditions become less favourable there could be a sharp contraction in asset values.

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