

**MINUTES** of the meeting of the **SURREY PENSION FUND BOARD** held at 9.30 am on 13 February 2015 at Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Committee at its next meeting.

**Elected Members:**

- \* Ms Denise Le Gal (Chairman)
- \* Mr Nick Skellett CBE (Vice-Chairman)
- \* Mr W D Barker OBE
- \* Mr Tim Evans
- \* 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**

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

**1/15 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]**

Apologies for absence were received from Judith Glover.

**2/15 MINUTES OF THE PREVIOUS MEETING: 14 NOVEMBER 2014 [Item 2]**

The Minutes were approved as an accurate record of the meeting.

**3/15 DECLARATIONS OF INTEREST [Item 3]**

There were none.

**4/15 QUESTIONS AND PETITIONS [Item 4]**

Three questions were received from County Councillor Jonathan Essex. The questions and responses are attached as **Annex 1** to the Minutes.

Mr Essex asked a supplementary question related to his first question. He highlighted the significant investment of the Pension Fund in fossil fuel companies and suggested that many firms were considering long-term sustainability of investments and consequently divesting themselves of stocks in fossil fuel companies. He queried how the Surrey Pension Fund was addressing this issue. The Chairman responded that the Statement of Investment Principles outlines how this issue is dealt with. The Surrey Pension Fund is also involved with the Local Authority Pension Fund Forum (LAPFF) which discusses investment issues and engages in questions around climate change and fossil fuel with relevant companies.

Mr Essex also asked a supplementary question related to his third question. He asked if the Board would consider amending the Statement of Principles so that, instead of stating:

“...external fund managers **could** deploy ESG considerations in deciding upon selection,”

it states:

““...external fund managers **should** deploy ESG considerations in deciding upon selection.”

The Chairman agreed to consider this under item 8 ‘Revised Statement of Investment Principles’.

**5/15 ACTION TRACKING [Item 5]****Declarations of interest:**

None.

**Key points raised during the discussion:**

1. In relation to A12/14 (training needs analysis), the Strategic Finance Manager – Pension & Treasury informed the Board that this would be addressed under Item 6 ‘Manager Issues and Investment Performance’.

2. In relation to A21/14 (training), the Strategic Finance Manager – Pension & Treasury explained that the synthetic equities training would be deferred to a future meeting date, while training on multi asset credit would be provided later in the day.

**Actions/Further information to be provided:**

None.

**Resolved:**

That the action tracker was noted and the committee agreed to remove the completed actions from the tracker.

**Next steps:**

None.

**6/15 MANAGER ISSUES AND INVESTMENT PERFORMANCE [Item 6]**

**Declarations of interest:**

None.

**Key points raised during the discussion:**

1. The Strategic Finance Manager – Pensions & Treasury introduced the report. He informed the Board that a final report on the transfer of funds from Mirabaud to Majedie Asset Management would be provided at the next meeting.
2. The Strategic Finance Manager – Pensions & Treasury explained the reasons for the sale of Capital Dynamic's US Solar Fund to Terra Forma Power Inc. He would circulate an annualised return and IRR (**Action Review ref: A1/15**).
3. Members expressed difficulties with regard to the proposed meeting on 15 May 2015 and requested that this be changed (**Action Review ref: A2/15**).
4. The Board discussed the increased premium quoted by Legal & General to take out an ill health insurance policy. The Board supported the recommendation to delay the purchase of ill health insurance and suggested that the issue be looked at again in a year. The Strategic Finance Manager – Pensions & Treasury agreed to include information on ill health insurance in an upcoming communication to employers (**Action Review ref: A3/15**).
5. The Board considered the drivers for working towards a liability driven investment (LDI) strategy. In particular the Board addressed funding levels and the real yield trigger. It was generally accepted that a real yield trigger should not be adopted in isolation from the funding level. It was agreed to come back to this later in the meeting.
6. The Strategic Finance Manager – Pensions & Treasury introduced the audit findings for Pension Fund Investment and the Management Action Plan. He highlighted the high priority recommendation on quarterly reconciliations and explained that, while reconciliations had taken place immediately, at the time of the audit there had been a slight delay in updating the council's SAP system. It would be a priority to update SAP in future.

7. The Surrey Pension Fund Advisor responded to the audit recommendation that independent advisers comply with FCA guidance, in particular the RDR rules. He suggested that there was some confusion as he provided strategic investment advice and so did not need to be FCA registered. The Chairman informed the Board that she had discussed this point with the Chief Internal Auditor and did not believe that the recommendation would be pursued.
8. The Board considered investment in the Marathon Emerging Market Fund. The Strategic Finance Manager – Pensions & Treasury and the fund's advisers supported this as a way for Marathon to provide exposure to emerging markets without having to deal with the bureaucracy imposed by particular countries. It was agreed to defer this decision and for the Strategic Finance Manager – Pensions & Treasury to provide more detail (**Action Review ref: A4/15**).
9. The Strategic Finance Manager – Pensions & Treasury tabled the Pension Fund Board's Assessment Results (attached as **Annex 2**). He highlighted areas where the Board had excelled and topics on which training could be provided. The Chairman informed the Board that some of the questions had been badly worded and that feedback had resulted in the test being reviewed. She suggested that she hold one to ones with Board members to discuss the results (**Action Review ref: A5/15**).
10. The Minutes of the Fund Manager meetings were tabled and introduced by the Surrey Pension Fund Adviser, (attached as **Annex 3** to the Minutes). A number of questions were asked and answered by officers and advisers. It was agreed to diversify part of the CBRE portfolio by setting a target of 25% in its Global Alpha Fund within the CBRE benchmark.
11. The Strategic Finance Manager – Pensions & Treasury introduced the Financial and Performance Report.
12. The Board considered the Asset Allocation and in particular the allocation to property. The Surrey Pension Fund Adviser suggested increasing the target allocation to property to 7%.
13. The Senior Accountant explained the differences between the tables on pages 41 and 42 of the report.
14. The Chairman informed the Board that she and the Strategic Finance Manager – Pensions & Treasury had met with Newton's CEO and was reassured that they now have an improved strategy. They felt it prudent to continue with Newton as a global equities manager but to review the fee structures with all fund managers. She also suggested that it was timely to do a deep dive review of the Pension Fund, including the performance and cost of investment advisers, actuarial costs and the costs of other overheads. It was agreed that two Members should work with officers on this review and bring back a report in September (**Action Review ref: A6/15**).

**Actions/Further information to be provided:**

- i. The Strategic Finance Manager – Pensions & Treasury to circulate an annualised return and IRR for Capital Dynamic's US Solar Fund.
- ii. Officers to reschedule the meeting on 15 May 2015.
- iii. The Strategic Finance Manager – Pensions & Treasury to include information on ill health insurance in an upcoming communication to employers.

- iv. The Strategic Finance Manager – Pensions & Treasury to provide further detail on the potential investment in the Marathon Emerging Market Fund.
- v. The Chairman to hold one to ones with Board members to discuss the assessment results.
- vi. Two Members to work with officers on a deep dive review of the Pension Fund, including the performance and cost of investment advisers, actuarial costs and the costs of other overheads and to bring a report back to the Board in September.

**Resolved:**

- 1. That the report was noted.
- 2. That the purchase of ill health insurance from Legal & General be DELAYED until the full implications of the revised price and new scheme rules have been fully evaluated.
- 3. That part of the CBRE portfolio be diversified by setting a target of 25% to be invested in CBRE's Global Alpha Fund, with the other 75% remaining in UK property and the CBRE benchmark to reflect this allocation.

**Next steps:**

None.

*The meeting was adjourned at 11.10am for a short break and reconvened at 11.30am.*

**7/15 PENSION FUND BUSINESS PLAN 2015/16 [Item 7]**

**Declarations of interest:**

None.

**Key points raised during the discussion:**

- 1. Following on from the previous item, it was agreed to add a review of consultant and advisory arrangements under 'Investment'.

**Actions/Further information to be provided:**

None.

**Resolved:**

Subject to the above amendment, the Pension Fund Board ADOPTS the Business Plan in respect of the 2015/16 financial year.

**Next steps:**

None.

**8/15 REVISED STATEMENT OF INVESTMENT PRINCIPLES [Item 8]**

**Declarations of interest:**

None.

**Key points raised during the discussion:**

1. The Board considered the earlier request by County Councillor Jonathan Essex that, instead of stating:

“...external fund managers **could** deploy ESG considerations in deciding upon selection,”

The Statement of Investment Principles states:

“...external fund managers **should** deploy ESG considerations in deciding upon selection.”

The Mercer representative stressed that Fund Managers do deploy ESG considerations in deciding upon selection. The Board agreed to make the change.

**Actions/Further information to be provided:**

None.

**Resolved:**

1. That, subject to the above amendment, the revised Statement of Investment Principles be APPROVED.
2. That the revised Core Belief Statement be APPROVED.

**Next steps:**

None.

**9/15 RESPONSIBLE INVESTMENT AND STEWARDSHIP POLICY [Item 9]****Declarations of interest:**

None.

**Key points raised during the discussion:**

1. The Strategic Finance Manager – Pension & Treasury introduced the report and confirmed that Manifest was appointed following a competitive tender process.

**Actions/Further information to be provided:**

None.

**Resolved:**

That the voting templates and revised Responsible Investment and Stewardship Policy be APPROVED and ADOPTED.

**Next steps:**

None.

**10/15 CORPORATE GOVERNANCE SHARE VOTING [Item 10]****Declarations of interest:**

None.

**Key points raised during the discussion:**

1. The Strategic Finance Manager – Pension & Treasury introduced the report.

**Actions/Further information to be provided:**

None.

**Resolved:**

That the report be NOTED.

**Next steps:**

None.

**11/15 LOCAL GOVERNMENT PENSION SCHEME: GOVERNANCE REGULATIONS [Item 11]****Declarations of interest:**

None.

**Key points raised during the discussion:**

1. The Strategic Finance Manager – Pensions & Treasury introduced the report and confirmed that a final report would be brought to the next meeting.
2. The overheads related to the new Local Pension Board were discussed.
3. The Strategic Finance Manager – Pensions & Treasury confirmed that it was possible get permission from the Secretary of State to join the new Local Pension Board with the existing Pension Fund Board. This was not seen as viable as it was difficult to see how effective scrutiny could be achieved.
4. The Strategic Finance Manager – Pensions & Treasury informed the Board that a bulletin on the new requirements would be circulated to employer and member bodies soon, along with an invitation for nominations to the new Board. He would also circulate the draft report to Council to the Surrey Pension Fund Board first for comments **(Action Review ref: A7/15)**.
5. The Board recommended that consideration be given to the name Local Pension Advisory Board for the new Local Pension Board.

**Actions/Further information to be provided:**

The Strategic Finance Manager – Pensions & Treasury to circulate the draft report to Council to the Surrey Pension Fund Board first for comments.

**Resolved:**

That the Pension Fund Board NOTED the report.

**Next steps:**

None.

**12/15 KEY PERFORMANCE INDICATORS [Item 12]****Declarations of interest:**

None.

**Key points raised during the discussion:**

1. The Senior Advisor (Pension Fund) informed the Board that there are ongoing conversations with other local authorities to provide pensions administration. Expansion will bring challenges but it is intended to continue providing outstanding service. The optimum size for pensions administration before inefficiencies develop is 300,000 to 500,000 members. The Chairman requested that officers keep an eye on capacity issues and membership size and report back. The Director of Finance informed the Chairman that a business case is completed for each authority. The authorities that have so far delegated responsibilities for their pensions administration are not large. There are no big rewards from expanding but there is a positive impact on reputation and cost efficiencies.

**Actions/Further information to be provided:**

None.

**Resolved:**

That the Pension Fund Board NOTED the KPI statement.

**Next steps:**

None.

**13/15 PENSION FUND RISK REGISTER [Item 13]****Declarations of interest:**

None.

**Key points raised during the discussion:**

1. A Member highlighted the risks suggested for inclusion by Internal Audit. The Strategic Finance Manager – Pensions & Treasury reminded the Board that it had requested that the Risk Register be rationalised. This had been discussed with Internal Audit and they now accepted the more succinct Risk Register.
2. The Director of Finance informed the Board that it would be necessary to update the mitigation for Risk 5 now it had been decided not to insure against the cost and impact of ill health retirements. The Senior Advisor (Pension Fund) highlighted the existing mitigation in regulations that an independent physician must sign off ill health retirements.

**Actions/Further information to be provided:**

None.

**Resolved:**

That, subject to the above amendments, the revised Risk Register be NOTED.

**Next steps:**

None.

*The Board meeting adjourned at 12.10pm for lunch and training and reconvened at 2.15pm without Tony Elias.*



**MANAGER ISSUES AND INVESTMENT PERFORMANCE [Item 6]**

1. The Board returned to its discussion on the liability driven investment strategy (LDI). After further discussion it was accepted that, as it was arguably more difficult for a manager to know as soon as a trigger funding level had been hit, the trigger should be the real yield of appropriate duration to match the liabilities. Following a lengthy debate it was agreed to revise the real yield trigger to 0.27% and incorporate this into the mandate documentation with Legal & General.

**Resolved:**

4. That the REVISED real yield trigger of 0.27% to switch into the leveraged gilt structure be incorporated into the mandate documentation with Legal & General.

**14/15 DATE OF NEXT MEETING [Item 14]**

The date of the next meeting would be rescheduled.

Meeting ended at: 2.20 pm

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**Chairman**

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**SURREY PENSION FUND BOARD****FRIDAY 13 FEBRUARY 2015****ITEM 4 QUESTIONS AND PETITIONS****MEMBERS' QUESTIONS****(1) MR JONATHAN ESSEX (REDHILL EAST) TO ASK:**

The Statement of Investment Principles 13/14 for the Pension Fund, under Stewardship and Responsible Investment states that:

“The Council requires the Fund Managers to take into account the implications of substantial “extra-financial” considerations, and that whilst the Fund has no specific policy on investing or divesting in stock with regard to ESG issues ... external fund managers could deploy ESG considerations in deciding upon selection”.

Please can you confirm in what way the external fund managers are required to do this by Surrey County Council and to what extent this is reflected in Surrey County Council's current stockholdings.

**Reply:**

The Council maintains an influence on issues of environmental, social or governance (ESG) concerns. Officers, advisors and Board members meet with Fund Managers on a regular basis to discuss investment and ESG issues. The Fund uses the services of a specialist governance advisor to identify potential areas of concern, and the firm advises on various ESG issues via bulletins issued at the time of AGMs and voting resolutions. Managers are expected to contact officers directly by e-mail or telephone if any current reputational issues could bring an issue into public debate. Officers will write to Board members if a particularly contentious issue is current or where a vote is required at an AGM.

In terms of the Fund's current stockholdings, there is no current policy of negative screening. All holdings exist on the fund managers' best judgement as to future returns and ESG issues are expected to part of managers' stock selection criteria. If ESG issues are a current factor in stock selection, then the outcome will be reflected in the managers' stock selection process.

The Fund also participates in all of the votes in its actively managed portfolios, according to its own Responsible Investment and Stewardship Policy. This policy is reviewed annually. A summary voting report is tabled at each quarterly meeting.

**(2) MR JONATHAN ESSEX (REDHILL EAST) TO ASK:**

The Statement of Investment Principles 13/14 for the Pension Fund, under Stewardship and Responsible Investment states that:

“The Pension Fund also holds expectations of its fund managers to hold companies to account on the highest standards of behaviour and reputational risk management which may damage long term performance, and for those issues to be part of their stock selection criteria”.

With this in mind, please can you confirm how the decision making and risk framework for the Pension Fund currently addresses the issue of stranded assets: i.e. those shares that will become worthless at some point, such as those of fossil fuel companies in the future?

**Reply:**

Stranded assets are those investments which are made but which, at some time prior to the end of their economic life (as assumed at the investment decision point), are no longer able to earn an economic return, as a result of changes in the market and regulatory environment. Fund managers are required to assess the timing at which such assets can be sold in order to achieve the best outcome for the Fund.

Managers are required to take a long term view when assessing the merits of a particular investment in which market, regulatory and technological factors would be considered.

**(3) MR JONATHAN ESSEX (REDHILL EAST) TO ASK:**

Please can you confirm what is the process of reviewing the pension fund principles, and how this will include active participation of those with shareholdings in the fund? In particular, please can you confirm the process whereby the Fund would engage in strengthening its ESG policies and fund management in the future, such as introducing a policy of positively investing in ethical stocks and the process of acting to divest in stocks with specific ESG issues.

**Reply:**

The Statement of Investment Principles and Core Belief Statement is reviewed at every quarterly meeting. Minutes of the meetings are published online. The Fund holds an AGM every November to which every employer organisation is invited. Whilst the Fund has no specific policy on investing or divesting in stock with regard to ESG issues, in comparing potential investment decisions, and where differences in predicted returns are deemed immaterial, external fund managers could deploy ESG considerations in deciding upon selection. The Fund is a member of the Local Authority Pension Fund Forum, a membership group of LGPS funds that campaigns on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.





## Surrey Pension Fund Board: Training Assessment

### Self Assessment Questionnaire: Results

Member

1

#### Investments

Asset allocation strategies	3
Appointing Fund managers	3
Investment Risk	3
Liability driven strategies	2
Equities	3
Government bonds	3
Corporate bonds	3
Property	3
Private equity	3
Infrastructure	3
Hedge funding	2
Commodities	2
Currency	2
Global Custody	2
Stock Lending	2

#### Local Authorities and the Local Government Pension Scheme

Actuarial Valuation and Funding strategies	3
Local government finance and council tax	4
LGPS benefits and administration	3
General pension legislation	3
Admissions Policy	3
Governance policy	3
Roles and responsibilities of an LGPS Board Member and administering authority	3
LGPS investment Regulations and Limits	3

#### General Management

Financial planning budgetary control	4
Accounting and audit	4
Risk management	3
Procurement	3

#### Environmental Social and Governance Investment Issues

UK Code of Corporate Governance	2
Stewardship Code	2
CIPFA/Myners Principles	3
Environmental/Social/Governance (ESG) consideration	2
Share voting	2

Test

Member

1

Legislation and Governance	18
Accounting and Audit	8
Procurement and Relationship	13

Investment Performance and Risk	8
Financial Markets	15
Actuarial	16
<b>Total</b>	<b>78</b>

Legislation and Governance	67%
Accounting and Audit	73%
Procurement and Relationship Management	68%
Investment Performance and Risk Management	73%
Financial Markets and Product Knowledge	75%
Actuarial	70%
<b>Overall</b>	<b>70%</b>



Member 2	Member 3	Member 4	Member 5	Member 6	Member 7	Member 8	Member 9
3	3	2	3	4	3	4	4
3	3	2	3	4	3	4	4
3	3	2	3	4	3	4	4
2	3	1	3	4	3	3	4
3	3	2	4	4	3	4	4
3	3	2	4	4	3	4	4
3	3	2	4	4	2	4	4
3	3	2	3	3	2	4	3
3	3	2	3	3	3	4	2
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3	2	1	3	4	2	4	3
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1	3	2	3	2	3	4	3
2	2	2	2	2	3	4	2
3	3	2	2	2	3	4	2

Member 2	Member 3	Member 4	Member 5	Member 6	Member 7	Member 8	Member 9	Member 10
18	16	19	13	20	17	12	13	11
5	8	7	5	6	5	7	9	4
12	12	13	13	15	12	11	15	9

9	10	8	9	10	10	8	9	7
18	16	18	15	17	17	11	18	17
15	20	17	14	18	18	9	18	15
<b>77</b>	<b>82</b>	<b>82</b>	<b>69</b>	<b>86</b>	<b>79</b>	<b>58</b>	<b>82</b>	<b>63</b>

67%	59%	70%	48%	74%	63%	44%	48%	41%
45%	73%	64%	45%	55%	45%	64%	82%	36%
63%	63%	68%	68%	79%	63%	58%	79%	47%
82%	91%	73%	82%	91%	91%	73%	82%	64%
90%	80%	90%	75%	85%	85%	55%	90%	85%
65%	87%	74%	61%	78%	78%	39%	78%	65%
<b>69%</b>	<b>74%</b>	<b>74%</b>	<b>62%</b>	<b>77%</b>	<b>71%</b>	<b>52%</b>	<b>74%</b>	<b>57%</b>

**Average**



- 3.2
- 3.2
- 3.2
- 2.8
- 3.3
- 3.3
- 3.2
- 2.9
- 2.9
- 2.7
- 2.7
- 2.3
- 2.6
- 2.2
- 2.3



- 3.1
- 3.3
- 2.9
- 2.6
- 2.4
- 2.8
- 2.9
- 2.4



- 3.1
- 3.0
- 3.0
- 2.7



- 2.3
- 2.2
- 2.7
- 2.3
- 2.6

**Total in Section**

27  
11  
19

11  
20  
23  
**111**

**58%**  
**58%**  
**66%**  
**80%**  
**81%**  
**70%**  
**68%**

**Notes from Meetings with Fund Managers: 12 February 2015**

Hosted by Western Asset Management

<b>Manager</b>	<b>Attending</b>
Western	Marian George Andrew Belshaw
Baillie Gifford	Anthony Dickson Patrick Edwardson
Franklin Templeton	Chris Orr Stuart Lingard
CBRE	Max Johnson Ivo de Wit D.Dhananjai

**Western**

1. Met with Marian George and Andrew Belshaw from Western.
2. Western discussed the continued global accommodative monetary policy. In their view, despite the ceasing of the US Federal Reserve's Quantitative Easing (QE) stimulus, monetary policy will remain loose with no expected rate rise until late 2015, despite strong economic growth and recent employment statistics.
3. Despite slightly contradictory pronouncements from Mark Carney during 2014, there will likely be no change to the Bank of England record low rates until 2016. The European Central Bank surprised markets by the scale of the recently announced QE program and recent sluggishness in the Japanese economy will likely lead to further central bank action.
4. Western's relative performance over the last year, and especially in the most recent quarter, suffered from the underweight position in long dated gilts, the yields on which have fallen dramatically. It was argued that the UK economy still retains the key problems which came into focus during the credit crisis: overly dependent upon consumer and domestic demand, which is in turn overly dependent upon credit. There was substantial growth in unsecured credit over the preceding 12 months.
5. The UK has reported consistently large current account deficits and, on a national level, failed to properly apply the fiscal reforms needed. This has led to a twin current account and fiscal deficit and given the prospect for higher medium term inflation. The depressed yield on longer dated UK Gilts was considered unjustified. The outlook for the UK is further complicated by the upcoming general election in which the prospect of a majority government appears unlikely.
6. Western were overweight long dated US credit and high yield which is considered cheap relative to EU and UK equivalent yields. This sector should perform well if the US economy experiences higher than expected economic growth.
7. In response to questioning on individual selections within US credit, Western were previously underweight in the energy sector, but were now looking to move overweight following recent price weaknesses.
8. Western are also positioned in certain emerging market debt bonds, notably index-linked Brazilian and Mexican debt.
9. Western anticipates European QE to continue beyond the current deadline of 2016 with the expectation of further yield compression.

**Baillie Gifford**

1. Met with Anthony Dickson and Patrick Edwardson from Baillie Gifford.
2. The main focus of the meeting was the departure of Mike Brooks from the multi-asset team at Baillie Gifford. Mike was one of four portfolio managers and one of seven investors within the multi-asset team, although the multi-asset team is supported by the other specialised areas of the firm.
3. Baillie Gifford were keen to stress that this was not considered a significantly damaging departure. Mike Brooks had played a very important part in the creation of the multi-asset team but the organisational structure and investment processes were now very well established.
4. In response to questioning on areas of specialist knowledge or individual ideas that would be lost from Mike Brook's departure, Baillie Gifford highlighted the fact that, whilst individuals within the multi-asset team were given individual areas of focus, the responsibility and accountability for any investment decision making was taken at a team level and the source of a particular investment idea was often the surrounding specialist team, e.g., fixed income.
5. Baillie Gifford is in the process of developing a diversified growth fund in the same vein as the existing fund but excluding the most capacity constrained investments, e.g., insurance bonds, to allow for a larger fund size. This expansion to managing two funds would likely involve external recruitment to cover the increased workload.
6. Looking forward, Baillie Gifford had made further investments into high yield and senior loans following recent volatility and a widening of spreads. In contrast, the fund now has no developed market bond exposure following the recent sale of Australian government bonds. Baillie Gifford were also planning to increase the exposure to global property

## Franklin Templeton

1. Met with Chris Orr and Stuart Lingard from Franklin Templeton.
2. The performance benchmark for Franklin Templeton was raised as an issue during the meeting, given the wide disparity between the reported benchmark and performance.
3. The Franklin Templeton absolute return fund is a USD denominated fund, hedged back to Sterling and, as such, Franklin Templeton maintained that the appropriate benchmark is the USD benchmark rather than the Sterling benchmark as has been previously reported in the board reports.
4. The performance for Franklin Templeton updated for comparison against the USD global bond benchmark is as follows.

	Return %	Benchmark %	Difference %
Quarter 3	-1.7	-1.2	-0.5
12 Months	0.6	0.5	0.1
Inception (Feb 2013)	1.7	-0.1	1.8

5. The fund portfolio was positioned very defensively in terms of duration with an average duration of just over one year, which has decreased over the past six months. Franklin Templeton were not convinced that estimates of global deflation would materialise beyond short term oil related dips. There was considered to be a fundamental mismatch in the pricing of developed market bonds.
6. Franklin Templeton were very positive on the US economy with the potential for the economy to surprise on the upside of market expectations. Given the strength of the US economy, it was likely that there would be a rise in US treasuries in 2015 regardless of an actual movement in the US Federal Reserve rate.
7. The portfolio was positioned to take advantage of US growth with investments closely linked to the US economy. The fund has a large exposure to short dated South Korean and Mexican government debt. In currency terms, the fund is long the USD versus the Yen and the Euro.
8. The fund has two small holdings in Ukrainian and Russian government debt as well as a bond holding in a Russian government backed bank. The portfolio is required by US law to be 100% liquid within 7 days and this is assessed on a regular basis by an independent provider. The portfolio is still considered to be 100% liquid and the market has sufficiently priced in the risk for Ukraine. Franklin Templeton were confident that Internal Monetary Fund (IMF) support for Ukraine would continue. Russia was considered to be more at risk in the long term but the investment was of short duration and was currently affordable.



## CBRE

1. Met with Max Johnson Ivo de Wit and D.Dhananjai from CBRE to discuss the current UK focused mandate and the potential to invest in global property through CBRE's Global Alpha Fund.
2. The Global Alpha Fund is a perpetual open ended fund which launched in November 2010 with a focus upon a developed market and sustainable high income strategies. The target is a total return of 9-11% per annum of which 50% is distributable dividend income.
3. The leverage ratio is currently 33% and is likely to vary between 30-35%. This is broadly higher than in the UK strategy as other geographic regions are typically exposed to higher levels of leverage.
4. There is a three-year lock in period once funds are committed. The entry price is at net asset value but the exit price is at net asset value minus trading costs.
5. The fund does not target an equal weighting in all geographic markets and sectors but focuses upon areas of strong rental income and capital growth driven by fundamentals rather than capital flows.
6. The CBRE fee would be 50 bps if over £20m is committed, with other fund and operating costs expected to comprise about 110bps.
7. The fund's performance is measured in local currency with the decision to hedge currency movements the decision of the client. CBRE suggested that if a decision was taken to invest in the global fund, a currency hedge be utilised as well.
8. CBRE recommended that, given the impressive recent rally in UK property, it would be sensible to diversify some part of the portfolio to the global fund. A target of 75% UK to 25% global was suggested.

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