Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 26th June, 2015, 2.00 pm

Bath and North East Somerset Councillors: David Veale (Chair), Paul Myers, Christopher Pearce and Shaun McGall

Co-opted Voting Members: Ann Berresford (Independent Member), Councillor Mary Blatchford (North Somerset Council), Cllr John Goddard (South Gloucestershire Council), William Liew (HFE Employers), Shirley Marsh (Independent Member) and Richard Orton (Trade Unions)

Co-opted Non-voting Members: Steve Paines (Trade Unions) and Wendy Weston (Trade Unions)

Advisors: Tony Earnshaw (Independent Advisor) and Steve Turner (Mercer)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager) and Geoff Cleak (Pensions Benefits Manager)

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Cherry Beath, Cllr Mike Drew, Cllr Steve Pearce and Clive Fricker. Cllr John Goddard substituted for Cllr Mike Drew.

3 DECLARATIONS OF INTEREST

There were none.

4 ELECTION OF VICE-CHAIR

Councillor Christopher Pearce was elected Vice-Chair of the Committee for the Municipal Year.

5 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

It was announced that Clive Fricker had resigned from the Committee.

6 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS,

PETITIONS OR QUESTIONS

Members of Fossil Free Bristol (Richard Lawrence, Holly Templer, Freddie Collins and Hannah Sneyd) presented a statement to the Committee. A copy of the statement is attached as an appendix to these minutes.

The Committee noted the statement.

7 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

8 MINUTES: 27 MARCH 2015

The public and exempt minutes of the 27 March 2015 were approved as a correct record and signed by the Chair.

9 ROLES AND RESPONSIBILITIES OF THE COMMITTEE

The Investments Manager presented the report. She invited Members to approve the Governance Compliance Statement, which was unchanged apart from the addition of a statement about the Pension Board. There had been no official guidance about what should be said about the Pension Board, so the Statement only included the basic facts about it. She also invited nominations for the non-BANES members of the Investment Panel and for delegates to the Local Authority Pensions Fund Forum. The current delegate, Cllr Mike Drew, wished to continue in that role, but it was possible to have an additional delegate. She drew attention to paragraph 4.7 of the report, which encouraged Members to undertake training and drew attention to The Pensions Code of Practice requirements in respect of Members' training.

RESOLVED

1. To note:

    a. the roles and responsibilities of the members, advisors and officers;

    b. terms of reference of the Committee and Investment Panel;

    c. the requirement to establish a local Pension Board.

2. To approve the Governance Compliance Statement.

3. To note that Bath and North East Somerset Council has appointed Cllr Christopher Pearce as Chair of the Investment Panel and Cllr David Veale and Cllr Cherry Beath as members of the Investment Panel, and to appoint Ann Berresford, Cllr Mary Blatchford and Shirley Marsh as the remaining members of the Panel.

4. To agree that Mike Drew and Richard Orton will represent the Fund on the Local Authority Pension Fund Forum.

10 APPROVAL OF DRAFT ACCOUNTS 2013/14 PRIOR TO FORMAL APPROVAL BY S151 OFFICER

An updated version of the draft accounts was circulated to Members.

The Head of Business, Finance and Pensions presented the report. He said there were two main changes from the earlier draft of the accounts: an additional commitment of $US300m for the pooled infrastructure fund, referred to in note 22, and an actuarial adjustment of £16k found during reconciliation which had not been entered into the accounts. Next year the accounts had to be submitted by 31st May. The value of the assets was now £3.8bn and had increased by £0.5bn over the year. The unusually high level of transfers in referred to in paragraph 4.2(f) of the report was the result of the merger of several colleges in the area.

A Member expressed concern about investment costs. He noted that the majority of the Fund's income came in the form of employer and employee contributions, yet it had spent £17.5m on investment costs plus £2m in transaction costs. It seemed therefore that the Fund had spent about £20m to earn an investment income of £28m. The Head of Business, Finance and Pensions suggested that the investment costs might seem to be good value when compared with the £0.5bn increase in the value of its assets that the Fund had achieved over the year. The Member asked how was it possible to be sure that this was the result of the activity of the Fund's investment managers rather than of a general rise in asset values; manager's fees rose in line with the value of the assets and not as a result of any work they had done. He noted that manager's performance fees had actually dropped from £4.9m to £1.8m, which he presumed was because they had not performed as well this year as the previous year. The Head of Business, Finance and Pensions referred to the table at the foot of page 23 of the accounts, which set out the market sensitivity for the various asset classes and said that managers were paid not only to increase returns but also to protect the assets of the Fund. The Member accepted that the expenditure on investment fees would be good value, if there was no alternative means of achieving the same result. He suggested that the Investment Panel should examine investment fees. The Investment Manager said that the performance fees for 2013/14 included performance fees from previous years that had not been disclosed, so overall there had been an increase in transparency.

A Member observed Note 2 to the accounts reported an increase of 21 in pensioners of the Fund, yet the accounts showed an increase in £7m in pension benefits. The Investment Manager said she would report back about this.

A Member asked what was being to trace out-of-touch members who might have a claim on the Fund. The Pension Benefits Manager said that there was an ongoing project to update membership records which had incomplete data. A tracing agency was used to try to trace these members, who were entitled to a refund of contributions. 2100 were outstanding in 2011 when the project started; this had been reduced to about 900. The target completion date for the project was 2016, though staff resources were very tight.

RESOLVED to note the Draft Statement of Accounts for the year to 31 March 2015 for audit.

11 TREASURY MANAGEMENT POLICY

The Investment Manager presented the report. She said that the Treasury Management Policy was reviewed every March at the same time as the Council reviewed its policy. The previous policy allowed only UK institutions as counterparties. The policy put before the Committee in March 2015 had proposed to allow European counterparties, but the Committee had declined to approve the policy, because of concerns about the use of counterparties in the Eurozone. The policy now proposed restricted the use of counterparties to those outside the Eurozone. The policy had been amended in response to the withdrawal by Barclays of its Platinum Call Account. To use an equivalent account without increasing limits, it was necessary to use a bank outside the UK.

A Member suggested that it should be clarified in documentation that there was a difference between the Fund's policy and the Council's policy in relation to the use of Eurozone counterparties.

A Member asked whether the Committee was being asked to approve the specific list of counterparties or the principles by which they were selected. The Investment Manager said that she would need to report back on this. The Member also suggested that the credit rating in itself was not sufficient as a basis for comparing institutions in different countries.

RESOLVED to approve the Treasury Management Policy as set out in Appendix 1.

12 MANAGEMENT OF LIABILITY RISKS

The Investment Manager presented the report. She said that it was proposed to delegate the review to the Investment Panel, which would make recommendations to the Committee. The aim was to devise a framework to manage more effectively the mismatch between the way the liabilities behave and the way the investment portfolio behaves, and thus the level of contributions required to be paid into the Fund. There were operational, investment and funding implications that needed to be considered.

A Member suggested that the scope should include scenario planning, because there were many possible variations in relation to cash flows and pension freedom, for example.

A Member suggested that liabilities should be considered by sector, e.g. academies, universities etc. He also suggested that other Members of the Committee should be invited to attend workshops held by the Panel as part of this review.

RESOLVED to agree;

1. the scope of the review set out in 5.1, subject to the inclusion of scenario planning, a review of liabilities by sector, and the timing set out in 5.2;

2. the delegation to the Panel set out in 5.3.

13 APPLICATION FOR ADMISSION TO THE FUND

The Investments Manager presented the report. She said that the applicant was offering a bond in line with the Fund's policy.

A Member noted that the letter in Annex 1 of the report referred to a pension deficit of £119,000 and asked how often their bond would be re-assessed. The Investments Manager replied that this would be done every three years as part of the Fund valuation.

A Member asked whether the Committee had ever refused an application recommended by officers. The Investments Manager replied that it had not, because if the admission did not comply with the Fund's policy, it would not be submitted to the Committee. Since 2007 the Fund's policy had been that all bodies seeking to join the Fund must have either a guarantee or a bond.

RESOLVED that Writhlington Trust is allowed admission to the Avon Pension Fund as a Community Admission Body subject to a bond being in place to protect the Fund and subject to the completion of an Admission Agreement.

14 COMMITTEE'S ANNUAL REPORT TO COUNCIL

The Investment Manager presented the report. She said that the report would be presented to the Council on 29th July.

A Member pointed out that in the first bullet point in paragraph (b) on agenda page 103 the second sentence should begin "fallen back to 78% from 85%", not 84%, and that the last figure in the third sentence should be £633m, not £636m.

A Member suggested that the change of the Fund's investment advisor should be reported under Advisory Contracts on page 107, and that pensions freedom and what it meant for the Fund should be mentioned in section 5 "Future Business".

RESOLVED to approve the 2015 Annual Report to Council, subject to amendments proposed by the Committee.

15 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report. He said the only issue to note this time was the clarification meeting on the Fund of Hedge Funds mandate tender, reported in Exempt Appendix 1. A Member wished to ask a question about this, so it was **RESOLVED** that

> the Committee having been satisfied that the public interest would be better served by not disclosing relevant information, and in accordance with the provisions of section 100(A)4 of the Local Government Act 1972, the public shall be excluded from the meeting for the discussion of Exempt Appendix 1 of the report of this item, because of the likely disclosure of exempt

information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

The Committee returned to public session.

RESOLVED to note the recommendations and decisions made by the Panel since the last quarterly activity report, as set out in 4.1.

16 REVIEW OF INVESTMENT PERFORMANCE FOR YEAR ENDING 31 MARCH 2015

The Assistant Investments Manager presented the report. He said that the funding level had fallen 7% over the year from 85% to 78%, largely because of a fall in real gilt yields, which are used to value the liabilities. This had only been partly offset by lower inflation and better than expected investment returns.

Mr Turner commented on the Mercer investment report. He said that there were clear benefits from the changes to investment strategy that the Fund had implemented. The markets seemed to have taken the Greek crisis in their stride. There was a question about when US interest rates would begin to rise. Bond volatility had increased a great deal; it would benefit the Fund if bond prices fell, as this would reduce the liabilities. Gilt yields had risen by about 0.5% since the beginning of the quarter, which was very good for the Fund.

A Member asked about the impact of pension transfers. The Investments Manager said that there had been no applications yet to transfer out of the Fund, but such transfers could impact on cash flow, among other things, and it was an issue that needed to be monitored carefully.

RESOLVED

1. To note the information as set out in the report.

2. To note the LAPFF Quarterly Engagement Report at Appendix 4.

3. To agree minor updates to the Statement of Investment Principles (SIP) as explained in Section 11, and approve the revised SIP in Appendix 5.

4. To note the assessment on the potential impact of the 2014 budget flexibilities on the Fund’s cash flow and liabilities in Appendix 6.

17 PENSION FUND ADMINISTRATION - BUDGET OUTTURN 2014/15, PERFORMANCE INDICATORS FOR PERIOD ENDING 30 APRIL 2015 AND RISK REGISTER ACTION PLAN

The Investments Manager presented the budget report. Directly-controlled expenditure was £226,000 below budget because of staff secondments. Increased use of electronic communications had resulted in lower communication costs. The investment budget is not directly-controlled, but is risk-based. There was a forecast overspend of £230,000 on this budget because of increased costs from the re-tendering of the DGF mandate, and managers’ fees had been higher than forecast because of strong market performance. She drew attention to the cash flow forecast in Appendix 2 and explained that cash flow was forecast on a monthly basis.

The Pensions Benefits Manager presented the performance report. He said that all reporting areas were within the targets set under the previous pensions' administration strategy, which had effect until 31st May 2015, with the exception of electronic service delivery to members, which would be given special attention under the Fund's IT strategy. The new pensions' administration strategy, approved by the Committee at the meeting of 27 March 2015, had come into effect on 1st June following consultation with employers. There had been an increase in cases, mainly generated by the end-of-year data-cleansing exercise and a rise in the number of estimate requests from members. The programme of work for full digitalisation of administration and communication had already commenced, including redevelopment of internal work flow and reporting modules across Pensions' Benefits and Payroll. Reports and plans had been put in place to achieve compliance with the requirements of The Pensions Regulator and with the work of the Pensions Board.

A Member asked about performance for transfers out. The Pensions Benefits Manager replied that an extra step had been put into the process to provide protection against pension scams. A new suite of reports was being developed and this area should probably have been given an "amber" rather than a "green" rating.

In reply to a question from a Member the Pensions Benefits Manager said that providing estimates could be very time-consuming. On one occasion a member had requested a total of sixteen estimates, reflecting the projection of different hours of work until retirement. At present staff felt they were obliged to provide estimates to members who requested them, but it was felt that the administration strategy needed to be amended so that staff who were within five years of the statutory retirement age were entitled to an estimate, but younger staff would have to use the self-service facility on the web site.

RESOLVED to note:

1. Administration and management expenditure incurred for 12 months to 31 March 2015.

2. Performance Indicators & Customer Satisfaction feedback for 3 months to 31 March 2015.

3. Summary Performance Report for period from 1 April 2011 to 31 March 2015.

4. The Risk Register.

18 WORKPLANS

The Investments Manager presented the report. She said that the training workshop and first meeting for the Investment Panel were now scheduled for 11 September. All Members were welcome to attend the workshop. It was hoped to confirm future Panel dates and dates for the training programme shortly.

A Member suggested that Socially Responsible Investment should be added to the Panel workplan.

A Member suggested that pensions' flexibility should be added to the workplan. The Investments Manager said that this would be considered as part of the interim valuation.

RESOLVED to note the workplans.

19 DATES OF FUTURE MEETINGS

RESOLVED to note the dates of future meetings.

The meeting ended at 3.23 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

Introductions of those attending and statement of whether they are members of the Avon Pension Fund or Fossil Free Bristol.

It's a widely held view that climate change poses a significant financial risk to the investment system and UK pension fund portfolios. However, at the beginning of 2014, the Avon Pension Fund had more than £17.4million invested in fossil fuel industries.

We are here to highlight the risks facing the Avon Pension Fund due to its continued investment in fossil fuel companies. We urge the pension fund committee to divest from fossil fuel interests in favour of supporting the transition to a low carbon economy.

*Investing in fossil fuels is **environmentally** unsustainable*

The facts

The international consensus on the science of global warming states - if we exceed a 2 degree rise then climate change becomes unpredictable and 'dangerous' ([i]).

The top 200 fossil fuel companies have known reserves equivalent to almost five times more than can be emitted if we are to have an 80% chance of preventing warming from exceeding the critical two degree threshold.

Corporations continue to pump billions of shareholder dollars into the quest for more fossil fuel supplies. Deutsche Bank estimates that in 2014, the oil industry spent $650bn on exploration and the development of new reserves[ii].

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The facts

The fossil fuel industry is based on an unsustainable business model. This throws into question their long term investment potential.

If an international agreement on climate change is reached, many of the fossil fuel assets currently listed on the world's stock market could become 'stranded'.

The Bank of England is undertaking an enquiry into the risk of fossil fuel companies causing a major economic crash if their fossil fuel assets become worthless[iii].

350.org's international Fossil Free campaign is putting pressure on organisations all over the world to shun unsustainable fossil fuel investments.

Many institutions in the UK and around the world have already committed to divestment.

Avon Pension Fund's position

We thank Liz Woodyard for her openness in recent correspondence regarding APF's approach to responsible investment in the face of climate change. From which we understand that:

- Existing APF policies do not appear to take into account the impact of its fossil fuel investments.
- APF is awaiting further understanding on the relationship between fossil fuels and climate change and on the approaches to managing those risks before responding to the climate change agenda
- APF has not established the carbon footprint of its investment portfolio
- Investment managers have not been asked to consider the feasibility of allocating capital away from fossil fuels

In correspondence with LAPFF, we understand that the preferred strategy for pension funds is to use their investments as a lever to influence the activities of fossil fuel companies rather than commit to divestment. In some cases pension fund shareholders have begun to challenge Exxon, Shell, and BP to show how their business model is compatible with two degree warming.

In this context, we call for APF to:

1. Tell us the results of their engagement with fossil fuel companies and, their escalation strategy should such engagement fail to deliver timely results

2. Consider the financial feasibility of divesting from fossil fuels with a view to:
   a. Immediately freezing any new investments in fossil fuels
   b. Divest immediately from pure-play coal companies
   c. Divest from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds within five years

3. Take a proactive and strategic approach to supporting the transition to a low-carbon economy by:
   a. Assessing the fund's assets that are invested in transition industries
   b. Requiring asset managers to detail opportunities for low-carbon investment
   c. Setting a target for increased investment in the low-carbon economy

4. Contact the Environment Agency Pension Fund, a global leader in concurrently protecting financial returns and mitigating climate change

We also see APF's continued support of the fossil fuel industry as inappropriate given our region's desire to be at the forefront of sustainability and low carbon innovation. As European Green Capital, Bristol City Council has already committed to not having direct investments in fossil fuels.

As an investment project manager in Bristol City Council's Energy Service, I strongly agree with this campaign to divest the Avon Pension Fund away from fossil fuels. Not only is it questionable to continue to support the burning of fossil fuels according to APF's 'Social, Environmental and Ethical Considerations' investment principles, the financial viability of those investments is also uncertain.

Investing in the future of fossil fuels presents a long-term financial risk due to the persistent over-valuation of coal, gas and oil reserves that may be rendered worthless if international agreements on climate change are reached.

Earlier this year, as Bristol entered its reign as 2015 European Green Capital, our Mayor George Ferguson pledged to divest Bristol City Council investments out of the fossil fuel industry. I am pleased to say that the council's policy has now been amended to reflect this and that Bristol City Council currently has no direct investments in fossil fuel industries. I lend my full support to this campaign and am keen to work with APF and its other member organisations to freeze and withdraw the Fund's unsustainable fossil fuel investments

Finally we would welcome the opportunity to attend a specific meeting with members to discuss these issues in more details.

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