

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 18th March, 2011, 2.00 pm

Bath and North East Somerset Councillors: Gordon Wood (Chair), David Bellotti (Vice-Chair), Tim Ball, Gabriel Batt and Victor Clarke

Co-opted Voting Members: Ann Berresford (Independent Member), Carolan Dobson (Independent Member), Councillor Mike Drew (South Gloucestershire Council), Councillor Mary Blatchford (North Somerset Council) and Councillor Tim Kent (Bristol City Council)

Co-opted Non-voting Members: Richard Orton (Trade Unions) and Keith Kirwan (Parish and Town Councils)

Advisors: Tony Earnshaw (Independent Advisor) and Dave Lyons

Also in attendance: Andrew Pate (Strategic Director, Resources & Support Services), Tony Bartlett (Head of Business, Finance and Pensions), Liz Feinstein (Investments Manager), Matthew Betts (Assistant Investments Manager), Steve McMillan (Pensions Manager), Martin Phillips (Finance & Systems Manager (Pensions)) and Alan South (Technical and Development Manager)

36 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

37 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Paul Shiner.

38 DECLARATIONS OF INTEREST

There were none.

39 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

Councillor Bellotti observed that as the Chair was stepping down from the Council in May, this would be the last meeting of the Avon Pension Fund Committee that he would attend, and proposed a vote of thanks to him for his outstanding leadership. This was carried unanimously.

The Chair said that he had thoroughly enjoyed his eight years on the Committee and expressed his thanks to the officers and advisers for their excellent support.

The Director of Resources and Support Services praised the Chair for his excellent working relationship with officers and for his hard work to improve the way the Committee worked.

40 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

41 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

42 MINUTES: 10 DECEMBER 2010

These were approved as correct record and signed by the Chair.

43 2010/11 AUDIT OPINION PLAN - PRESENTATION BY AUDITOR

Mr Hackett presented the draft Audit Opinion Plan 2010/11, which set out the audit work programme and timescale. The audit fee for 2010/11 was unchanged from 2009/10 at £47,000.

RESOLVED to note the Audit Opinion Plan for 2010/11.

44 ACTUARIAL VALUATION - PRESENTATION BY ACTUARY

Paul Middleman of Mercers presented to the Committee. A summary of his presentation had been circulated with the agenda as Appendix 1 to the report. He said that the 2010 actuarial valuation for the Avon Pension Fund and other LGPS funds had been one of the most challenging that he had undertaken mainly because of the squeeze on public sector finances. A crucial issue for the future was affordability. Significant factors for the Fund's valuation had been longevity, inflation and projected investment returns. The level of future benefits had been reduced as a result of linking increases to CPI instead of RPI introduced by the Government in its June 2010 budget. A judgment had to be made about the balance between the affordability of contributions and the level of contributions needed to ensure the solvency of the Fund. The graph on page 4 of the presentation showed that the life expectancy of Fund members was very high. The table on page 7 showed that the deficit had increased from £459 million at 31 March 2007 to £552 million at 31 March 2010.

In response to a question from a Member, he said that at present Mercers use models based on evidence to assess the long term trend in life expectancy. These currently show that life expectancy is still increasing, though it could be expected to level off at some time in the future and the longevity assumption in the valuation reflects this.

A Member observed that longevity varied in different parts of the Avon Pension Fund area. Life expectancy in Bristol was quite different from that in Bath, for example, and it was agreed that this would be explored prior to the 2013 valuation to ascertain whether it should be factored into the 2013 valuation. Another Member added that there was also a difference in life expectancy between occupations.

It was agreed that the Actuary would present the initial results of the next valuation to the Committee prior to distribution to employers.

RESOLVED to note the Actuary's presentation.

45 VERBAL UPDATE ON HUTTON REPORT

The Technical and Development Manager and Paul Middleman, the Fund Actuary, updated the Committee on the report of the Independent Public Services Pensions Commission, chaired by Lord Hutton (http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm). It was explained that Hutton had emphasised the importance of all the stakeholders in public sector pension schemes working together and maintaining dialogue to build a consensus on the way forward. The impact of the report on the next actuarial valuation was not clear. It was felt that the Local Government Pension Scheme had moved further to address future challenges than other public sector pension schemes.

A Member observed that the level of contributions could affect the viability of the scheme if they were a disincentive for people to become or remain members and expressed surprise that the Hutton report had not dealt with this. Mr Middleton replied that the level of contributions had not been in Hutton's remit, though there was a great deal of discussion in the Treasury about it. In the Local Government Pension Scheme there was flexibility to increase contributions or reduce benefits, which was not the case in the unfunded schemes. He agreed that the level of contributions would be a bone of contention.

The Director of Resources and Support Services advised that there was information about the Hutton report on the Avon Pension Fund website. A Member suggested that the onus should be on employers to inform their staff of the implications of the report.

RESOLVED to note the update on the Hutton report.

46 REVIEW OF HEDGE FUND PORTFOLIO

The Investments Manager presented the report, which summarised the outcomes of the Committee workshop held on 2 March 2011. Members had agreed at the workshop that the allocation to hedge funds should remain at 10% of the total Fund, but that the allocations between individual hedge fund managers should be changed. A Member noted that the costs of switching between hedge funds could be considerable, and sought assurance that the benefits would outweigh the costs. The Investments Manager replied that officers would ascertain the costs and report to the Investment Panel. Councillor Bellotti (Vice-Chair and Chair of the Investment Panel)

said that the workshop had carried out a very comprehensive review. He drew attention to the comments made about Gottex in paragraph 5.5 of the report and said that the workshop had been very concerned about leverage and wanted to minimise the risks arising from hedge funds using borrowed money. The Investments Manager said that officers would be working closely with Gottex to get a better understanding of how they could improve transparency and monitor the level of borrowing and would report to the Committee, initially via the Investment Panel.

RESOLVED that the Committee agrees the following recommendations following the review of the Fund's hedge fund investments:

(i) The allocations between the Fund of Hedge Fund (FoHF) managers should be amended as follows:

- (a) Reduce Man's share of the portfolio from 45% to 30%
- (b) Reduce Lyster Watson's share of the portfolio from 5% to zero.
- (c) Increase Signet's share of the portfolio from 20% to 30%,
- (d) Increase Stenham's share of the portfolio from 5% to 15%.

(Note that the allocation Gottex remains unchanged.)

(ii) The hedge fund investments should be reviewed in 3 years time.

47 REVISED STATEMENT OF INVESTMENT PRINCIPLES AND MYNERS ACTION PLAN

The Investments Manager presented the report. She reminded Members that the Fund was legally required to produce a Statement of Investment Principles which incorporated a statement of compliance with the Myners Principles. The results of the Members' self-assessment exercise on decision making were summarised in Appendix 7 and a suggested training framework outlined in Appendix 9.

A Member suggested that training sessions could be linked with Committee meetings and held on the same day. Another Member said that training should not aim at producing Members with a uniform mentality. The Investments Manager agreed, and said that attendance at conferences gave Members an opportunity to hear presentations expressing diverse viewpoints.

RESOLVED

1. To approve the revised Statement of Investment Principles.
2. To note the actions identified by the self-assessment of the decision making process.
3. To approve the Committee's training programme.

48 INVESTMENT PANEL MINUTES

The Investments Manager presented this item.

Councillor Bellotti (Vice Chair and Chair of the Investment Panel) drew attention to his comment in Minute 40 about rescheduling the Committee workshop on SRI to July. This was important because many Councillors might be leaving the Council after the May elections.

RESOLVED to note the draft minutes of the Investment Panel meeting held on 12 January 2011.

49 RECOMMENDATIONS FROM THE INVESTMENT PANEL

The Investments Manager presented the report.

RESOLVED to agree the brief for the SRI review set out in section 4.2 of the report as recommended by the Panel at its meeting on 12 January 2011.

50 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 31 DECEMBER 2010

The Assistant Investments Manager presented the report and commented on the key figures set out in paragraph 4.3.

Mr Lyons commented on the JLT performance monitoring report attached as Appendix 2. Equity markets had continued their positive run. There had been a strong recovery in oil stocks. All managers had produced positive absolute returns apart from RLAM. The graph on page 18 demonstrated that while the Fund of Hedge Funds had delivered lower returns this had been accompanied by lower volatility. The underperformance of Jupiter, partly a function of its SRI constraints, should be noted. There were no significant concerns about any of the fund managers. Once again the Fund's diversification strategy had demonstrated its worth.

A Member questioned Mr Lyons on the market fallout from the popular uprisings in the Middle East and the Japanese tsunami. He replied that the price of oil had increased significantly due to the unrest, but this was not because there had been a decrease in supply or an increase in demand, but reflected a concern that the unrest would spread further. The impact of the Japanese tsunami was difficult to assess at present. In the short term a decrease in Japanese growth of $\frac{1}{2}$ to $\frac{3}{4}$ % was anticipated. There had been an impact on equity markets, but they had recovered. Many Japanese homes were without electricity and some nuclear power stations were likely to be decommissioned. The Bank of Japan was taking steps to ease the appreciation of the Yen and had intervened in the bond markets. It had injected \$184bn into money markets. In the longer term, the disaster could have a positive effect on Japanese growth by stimulating demand after more than a decade of deflation. Neither the situation in the Middle East nor that in Japan gave rise to specific concern in relation to any of the Fund's portfolios. A Member commented that the strategy to diversify across asset classes would be beneficial to the Fund in such times of heightened uncertainty.

RESOLVED to note the information as set out in the report.

51 COMMUNITY ADMISSION BODIES FOR APPROVAL

The Pensions Manager presented the report. He said that the three community admission bodies seeking entry into the Fund were small organisations and that their admission would have minimal impact on the Fund, as each of them were guaranteed by scheme employers.

A Member said that she understood that only public sector bodies were eligible for admission to the Fund. Another Member pointed out that they were not private sector bodies, but not-for-profit charities. He added that as a result of the policies of the present Government all sorts of functions could be transferred to similar bodies and that the staff working in them needed pension provision, so it could be foreseen that the number of applications for admission by such bodies would increase. The Director of Resources and Support Services agreed that these were relevant issues for the future and that it would become more difficult to draw a hard and fast boundary between the public from private sectors. However, the current policy is that community admission bodies are only admitted to the Fund if they have a guarantee from an existing scheme employer.

RESOLVED that

1. Clevedon School Sports Centre (Swiss Valley) is allowed entry into the Avon Pension Fund as a Community Admission Body with North Somerset Council acting as guarantor.
2. Gordano School Community Trust is allowed entry into the Avon Pension Fund as a Community Admission Body with North Somerset Council acting as guarantor
3. Bristol Music Trust is allowed entry into the Avon Pension Fund as a Community Admission Body with Bristol City Council acting as guarantor.

52 BUDGET & SERVICE PLAN 2011-14

The Pensions Manager presented the report. He said that the plan set out the Fund's objectives for the next three years and the budget that would support them. Of course the objectives needed to be achieved at the lowest possible cost. This would be facilitated by, among other things, more integrated use of IT and the roll out of the administration strategy. The budget for the period would be reduced by 5% with no reduction in service levels.

RESOLVED to approve the 3-year Service Plan and Budget 2011-14 for the Avon Pension Fund.

53 PENSION FUND ADMINISTRATION - BUDGET MONITORING FOR 10 MONTHS AND PERFORMANCE INDICATORS FOR 3 MONTHS TO 31 JANUARY 2011

The Finance and Systems Manager (Pensions) presented the expenditure report. There was a forecast underspend of £29,500, of which £22,700 was forecast to occur within the directly controlled Administration budget. At the same time the full one-off costs of implementing the Altair Member Self Service system and the Heywood's Employer Self Service system would be charged to the current financial year, which would to some extent relieve the pressure for savings in the 2011/12 budget.

The Pensions Manager presented the performance report. There had been major events in the period which had affected Administration performance. These included teething problems following the switchover from AXIS to Altair in late October 2010 and unavailability of the internet due to power failures. There had been good feedback about the pensions clinics in the period. The Heywood Employer Self Service facility was being tested and when fully implemented should reduce the burden on the Fund's Administration staff.

A Member enquired whether there were adequate resources to deal with enquiries from schools looking to become academies. The Pensions Manager replied that the Employers Liaison team had been created to deal with such issues.

RESOLVED to note the expenditure for administration and management expenses incurred for the ten months ending 31st January 2011 and performance indicators for the three months ending 31st January 2011.

54 WORKPLANS

RESOLVED to note the workplans.

The meeting ended at 4.16 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services