Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 24th September, 2010, 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), Bill Marshall (HFE Sector) 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 (JLT Benefit Solutions)

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

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Rowena Hayward, Steve Paines and Paul Shiner.

3 DECLARATIONS OF INTEREST

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair announced that Cllr David Bellotti had become Chair of the Investment Panel for the remainder of the current Municipal Year.

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

There were none.

6 **ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

There were none.

7 **MINUTES: 25TH JUNE 2010**

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

8 **AUDITED STATEMENT OF ACCOUNTS AND THE ANNUAL GOVERNANCE STATEMENT 2009/10**

The Finance and Systems Manager (Pensions) presented the report. He said that the Committee was being asked to approve the accounts before they went for final approval at the next meeting of the Corporate Audit Committee. There had been two significant changes since the draft accounts were approved in June:

1. The insertion of a note to the Net Assets Statement regarding a Non Adjusting Post Balance Sheet Event, namely the announcement in the Budget of 22nd June that pensions increases would in future be based on the CPI instead of the RPI, which would reduce the Fund's pensions obligations by an estimated 5-8%.

2. The addition of note 18 concerning outstanding commitments totalling £73m relating to investments in property that would be drawn down in tranches by the relevant investment managers.

The District Auditor commented that the auditors had given an unqualified opinion on the accounts, but had noted two non-significant unamended errors and one presentational error. The Corporate Audit Committee would take the final decision as to whether these errors would be amended. Mr Hackett noted that the quality of working papers had improved.

In response to a question from a Member, the District Auditor replied there had been a large reduction in the audit fees for the Fund this year because there had been a change of approach to the audit and because the Audit Commission had changed its fees structure. The Director of Resources and Support Services commented that next year there was likely to be a much greater reduction in the audit fees for the Council than for the Fund, because of the abolition of the Comprehensive Area Assessment.

RESOLVED

1. To approve the final audited Statement of Accounts for 2009/10.

2. To note the issues raised in the Annual Governance Report.

9 **ANNUAL REPORT AND ACCOUNTS 2009/10**

The Investments Manager presented the report. She said that the sections dealing with the governance, risk management and scheme administration had been expanded and the shareholder voting record of the Fund was now included in the Annual Report.

A Member suggested that because there was concern about a “pensions time bomb” from increasing longevity, the Annual Report should address this and give a clearer picture of the relationship between the assets and liabilities of the Fund. The Investments Manager felt this involved technical actuarial issues that might be difficult to explain in a report intended for a lay audience. Another Member agreed that any such statement would need to be carefully worded. In any case he felt that the Avon Pension Fund, with 80% of liabilities covered, was in a better position than many funds. Another Member suggested that there might be a simple statement that the deficit had widened because of a number of factors including disappointing investment returns. The Director of Resources and Support Services advised that the Annual Report needed to be finalised now. Members agreed with his suggestion that the wording in the Review of the Year should be amended giving a more general picture of the funding situation.

A Member noted a discrepancy in the figures given for the funding level at 31st March 2010 on page 31 of the Annual Report (“approximately 80%”) and on page 5 of the Funding Strategy Statement (“[83%]”). The Investments Manager explained that the Funding Strategy Statement contained some information that would only be confirmed once the valuation was complete.

RESOLVED

1. To approve the draft Avon Pension Fund Annual Report 2009/10.

2. To note the arrangements for distribution of the Avon Pension Fund Annual Report 2009/10.

10 OVERVIEW OF THE LGPS FUNDS - PRESENTATION BY WM PERFORMANCE SERVICES

David Cullinan of WM Performance Services made a presentation to the Committee about the trends and performance across the universe of LGPS funds. He distributed a set of slides, a copy of which is attached as an appendix to these minutes.

Members discussed the presentation, in particular whether there was evidence that active fund managers secured better returns. The LGPS evidence suggested that active manager has not added value over the longer term. Mr Cullinan explained that this could also be influenced by the selection process of individual funds (i.e. the timing of hiring and firing managers).

A Member commented that as the longevity of Avon Fund pensioners was above average, the Fund had to achieve better than average returns, yet over the last ten years there had been no reward (in terms of higher returns) of taking on the risk of investing in equities. The challenge for the Fund was to seek out investments where there was the opportunity of high but less volatile returns and he noted that the Government had recently announced that local authorities would be able to borrow, which could provide opportunities for the Fund.

Members thanked Mr Cullinan for his presentation.

11 FUNDING STRATEGY STATEMENT 2010

The Investments Manager presented the report. She drew attention to the comments received from the employing bodies, which were attached as Appendix 2 to the report. She believed that no changes to the Strategy were necessary as a result of comments received.

RESOLVED

To approve the Funding Strategy Statement for general publication and distribution to the Fund's employing bodies, subject to the insertion of information which can only be included when the actuarial valuation is complete.

12 PENSION FUND ADMINISTRATION - EXPENDITURE FOR 4 MONTHS TO 31ST JULY 2010 AND PERFORMANCE INDICATORS FOR THE 3 MONTHS ENDING 31ST JULY 2010

The Finance and Systems Manager (Pensions) commented on the expenditure figures. An underspend of £392,000 was forecast for the full year, mainly because of an underspend on investment manager fees due to the later than expected appointment of a Global Equity Manager.

The Pensions Manager commented on the performance figures.

- The data cleansing exercise had revealed leavers and deaths from some time ago which had provide complex and time consuming to process. A drop in performance in finalising death cases to 60% against the target of 90% had resulted. Despite this, the total number of outstanding cases was less than 5% well below the target of 10%. The processing of transfers was back on track and above target. However, the Government's announcement that in future pension increases would be based on CPI rather than RPI meant that "" transfers would have to be stockpiled until revised factors were received from the Government Actuary's Department.

- Hits on the Fund's website had more than doubled. The Director of Resources and Support Services suggested that staff are visiting the website because of concerns about redundancy and noted that they had been encouraged to visit it for information about the Hutton review of public sector pensions.

- Members were pleased to note the low level of sickness of pensions staff during the period.

RESOLVED

1. To note the expenditure for administration and management expenses incurred for the 4 months ending 31st July 2010.

2. To note the Performance Indicators and Customer Satisfaction feedback for 3 months to 31st July 2010.

13 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 30 JUNE 2010

The Assistant Investments Manager presented the report and summarized the key facts. The value of the Fund's assets had fallen by £149m (-6.1%) because equity markets had declined in reaction to fears of a double-dip recession. Over twelve months, however, the value of the assets had risen by £377m (18.6%). In terms of relative performance, the Fund was in line with the average of the WM Local Authority Fund universe. The report from JLT Benefit Solutions had noted that the Fund had benefited from the diversification of asset classes.

The Financial Reporting Council had published the first Stewardship Code for institutional investors, which would replace the Combined Code. The purpose of the Code was to improve the quality of corporate governance through the promotion of better dialogue between shareholders and company boards and more transparency about the way in which investors oversee companies they own. It was intended to bring a report about the Code to the December meeting of the Committee.

Mr Lyons summarised the key facts in the JLT report. Jupiter's, three-month performance had outperformed the benchmark, but relative longer-term performance had been disappointing. Jupiter managed an SRI-portfolio, which differed significantly from the benchmark, so that the volatility of returns was expected to be high. Conditions in the past quarter had been very favourable for the smaller companies in Jupiter's portfolio. There had been strong growth in emerging markets and Genesis Global Asset Managers had outperformed the benchmark by 1.6% in the last quarter. He drew attention to the graph on page 18 of the JLT report, which demonstrated that the Fund of Hedge Funds had contributed to a reduction in volatility of returns. A Member commented that the chart only showed the last year and that hedge funds had been very volatile two years ago.. Mr Lyons commented that going forward this chart would reflect three year data. The JLT report included qualitative assessments of Schroders and Partners for the first time.

Members commended Mr Lyons for the quality of the JLT report.

RESOLVED

I. That the last two sentences of paragraph 6.3 of the report be amended as given below by the deletion of the word struck out and the insertion of the words in bold type

> *"As part of the valuation process, the Committee ~~will~~ **needs to** approve the **Fund's** Funding Strategy Statement (FSS) which sets out the parameters for the valuation. The **proposed** FSS was discussed in depth at the Committee workshop held on 23 July 2010 and is included elsewhere on this agenda."*

2. To note the information set out in the report as amended

14 RECOMMENDATIONS FROM THE INVESTMENT PANEL

RESOLVED that 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 be excluded from the meeting for this item of business because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of schedule 12A of the Act as amended.

A note about the meeting of the Panel on 16 September 2010 had been circulated to Members before the meeting.

The Chair of the Investment Panel, Cllr Bellotti, summarised the discussions with TT International about why they had increased their holdings in BP after the Deepwater Horizon oil spill had occurred. The Panel had also considered the high proportion of the Fund invested passively by BlackRock, and had reviewed the property portfolios, meeting managers from Schroders and Partners.

Whilst discussing the allocation to passively managed investments, Members expressed doubt about whether there was evidence that active managers added value. Mr Lyons suggested that there was evidence that some active managers had skills in certain areas. However, they were often not given the opportunity to develop their skills over a market cycle. The Independent Advisor said that the balance between active and passive investment needed to be kept under review. The Chair suggested that this might be work that could be undertaken by the Investment Panel.

RESOLVED

1. To approve the revised Investment Management Agreement guidelines for Partners.

2. To approve the delegation of future annual reviews of the property portfolio to Officers in consultation with the Investment Panel, with any changes of a strategic nature being referred to the Committee for approval.

15 ADMITTED BODIES REPORT - VERBAL UPDATE

The Committee returned to open session.

The Investments Manager gave a verbal update as to progress made on funding issues with some of the Fund’s admitted bodies.

RESOLVED to note the update and receive further reports at future meetings.

16 WORKPLANS

The Investments Manager presented the report. She said that additional meetings of the Investment Panel would be arranged before March 2011.

The Pensions Manager said that the Fund employers' annual conference would take place in February 2011. He would send details to members.

RESOLVED to note the workplans for the period to 31 March 2011.

The meeting ended at 4.03 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services