

Minutes of the Meeting held

Friday, 24th June, 2016, 11.00 am

Bath and North East Somerset Councillors: David Veale (Chair), Christopher Pearce (Vice-Chair), Cherry Beath, Shaun Stephenson-McGall and Lisa O'Brien

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

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

Advisors: Steve Turner (Mercer) and Paul Middleman (Mercer)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Geoff Cleak (Pensions Benefits Manager), Martin Phillips (Finance & Systems Manager (Pensions)) and Alan South (Technical and Development Manager)

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cheryl Kirby.

3 DECLARATIONS OF INTEREST

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair welcomed Cllr Lisa O'Brien to her first formal meeting of the Committee.

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

Holly Templer and Elaine Ashley of Fossil Free Bristol and Councillor Lin Patterson made statements urging the Fund to disinvest from fossil fuels.

Richard Lawrence of Fossil Free Bristol submitted the following question:

On 27th March 2015 I, together with other members of the public, attended Avon Pension Fund Committee meeting to express concerns over the Fund's investments held in fossil fuels. The then Chair felt that this was a significant issue and needed to be considered by the Committee.

At its meeting on the 25th September 2015 the Committee agreed the scope of a review of its responsible investment policy which it was said would address these concerns.

Since that date the Committee has received further representations from councillors, concerned members of the public and Fund members on the issues of fossil fuel investments, and indeed the world at large has reported many concerns relating to global warming and uncertainties in the future of fossil fuel industries.

Can you tell me what progress is being made in respect of the responsible investment policy and when the Committee will receive a draft of the new policy?

The following answer was approved by the Committee:

Work on the review is underway and it is planned for the Committee to consider a revised Responsible Investing Policy at their meeting on 9th December 2016.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 18 MARCH 2016

The public and exempt minutes of the meeting of 18 March 2016 were approved as a correct record and signed by the Chair.

8 ROLES AND RESPONSIBILITIES OF THE COMMITTEE

The Investment Manager introduced the report. She said the Governance Compliance Statement was unchanged from last year, including the information given about the Pension Board. Government guidance on how the Pension Board should be referred to in the Statement had been expected, but had not been received. The Statement would need to be updated when the pooling arrangements were in place.

It was agreed that the three co-opted Members serving on the Investment Panel should continue to do so for another year.

It was agreed that Cllr Mike Drew, Richard Orton and Cllr Steve Pearce would continue to represent the Fund on the Local Authority Pension Fund Forum.

It was noted that Wendy Weston had taken over from Richard Orton as the trade union voting member with effect from this meeting.

A Member recalled that there had been discussion at the Panel about the desirability of it having additional powers to take investment decisions, because of the Fund's need to respond more rapidly and flexibly to market conditions. The Head of Business, Finance and Pensions suggested that this need had to be more carefully defined; a proposal to amend the Panel's terms of reference could then be brought to the Committee.

RESOLVED

1. To note the roles and responsibilities of members, advisors and officers.
2. To note the terms of reference of the Committee and Investment Panel.
3. To approve the Governance Compliance Statement.
4. To agree that Ann Berresford, Cllr Mary Blatchford and Shirley Marsh should continue to serve as members of the Investment Panel.

To agree that Cllr Mike Drew, Richard Orton and Cllr Steve Pearce should continue to represent the Fund on the Local Authority Pension Fund Forum.

9 DRAFT FUNDING STRATEGY STATEMENT

The Investment Manager introduced this item. She reminded Members that the broad principles of the FSS had been discussed at a workshop on 8 March 2016. After the approval of the draft FSS, it would go out to consultation with employers and would come back to the Committee for approval at the September meeting. The final FSS would be used by the actuary for the 2016 valuation. It is the primary document used for valuing the Fund's assets and liabilities.

The Fund's actuary, Paul Middleman, distributed a set of PowerPoint slides summarising the key points in the draft FSS and commented on them. He reminded Members that if the Fund was not 100% funded, a plan had to be put in place to achieve that within a reasonable time frame. It was vital to maintain a balance between achieving 100% funding and a reasonable level of employer contributions. This valuation differed from the previous one in that all the Fund's policies would be brought together. He was proposing to reduce the discount rate from CPI + 3% p.a. to CPI + 2.75% p.a, which would increase the Employer Future Service Rate by approximately 1%.

Members asked questions and made comments to which Mr Middleman and officers responded.

After discussion it was **RESOLVED** to approve the draft Funding Strategy Statement as set out in Appendix 1 (subject to the insertion of information which can only be included when the actuarial valuation is complete) for consultation to employing bodies.

10 FRAMEWORK FOR LIABILITY DRIVEN INVESTMENT

The Investment Manager introduced this item. She said that the Panel had considered this proposal in detail over the last six months, and was now recommending that the Committee approve the framework set out in Exempt Appendix 1. The framework addresses the mismatch between the changes in the value of assets and liabilities. At present if the deficit grew significantly, employers would have to be asked for higher contributions. The actuarial valuation was concerned with various issues, such as the value of the assets and the funding level, but ultimately one of the most important issues is cash flow. This framework gave an additional tool for managing the mismatch risk and cash flow more effectively.

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

Mr Turner commented on Exempt Appendix 1 and he and officers responded to questions and comments from Members.

After discussion it was **RESOLVED**:

1. To agree the Liability Risk Management Framework recommended by the Investment Panel on pages 13 and 14 of Exempt Appendix 1.
2. To delegate the implementation to Officers in consultation with the Investment Panel.

11 POOLING OF INVESTMENT ASSETS - VERBAL UPDATE

The Investment Manager gave a verbal update. She said that the agenda for the special meeting to be held on 30 June had been sent out the previous day. The Government had asked for the submission to be based on a template. The papers on the agenda were in the form in which they would be submitted to the Government. The full business case would be put to the committees in October. There had been a lot of input from Project Brunel's legal and financial advisors; PwC had been advising on the financial aspects. Because of time constraints the approval of any decisions required after consideration by the committees will be delegated to the Chair and the Head of Business, Finance and Pensions.

She invited Members to report any concerns that they still had at the special meeting on 30 June.

The final business case would have to be approved by the Committee. It could not be approved before the issue of the new Investment Regulations, which would establish the legal basis for the pool.

The proposal to set up an independent investment company would require approval by the Councils. S151 and Monitoring Officers of the 10 funds were now fully

involved in the decision-making process. It was hoped that the company would begin operation in April 2018.

There will be a further update at the September meeting of the Committee. It would probably necessary to arrange further special meetings to provide updates on the business plan.

The Chair said that there had been four meetings of the Shadow Joint Board. There had also been a private meeting of the ten fund Chairs, who had all expressed confidence in the way things were progressing.

A Member said that the workshop for Members on pooling had given her confidence in the proposals. She was pleased to note the dedicated website for Project Brunel, which was very good.

The Head of Business, Finance and Pensions said that not only had six or seven pools been established, but there was also cross-pool working.

RESOLVED to note the update.

12 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager introduced this item. There was only one recommendation from the Panel, namely that that the Committee should be invited to approve the Liability Risk Framework discussed under item 10.

RESOLVED to note the minutes of the Investment Panel meeting on 25th May 2016.

13 ANNUAL REVIEW OF INVESTMENT STRATEGY AND PERFORMANCE

[Councillor Mike Drew joined the meeting.]

The Assistant Investments Manager introduced this item. He invited Mr Turner to comment on the referendum vote for “Brexit”. Mr Turner said it would be a long time before the economic impact would be clear and portfolios would need to be monitored for some time to identify trends. This morning UK markets had fallen about 5% and European markets 3.6%. Gilt yields were performing well. The strongest impact had been on the pound. There would be an impact on the portfolios of active managers. It was not possible at this time to make any specific recommendations about how the Fund should respond. He suggested that the vote further underlined the need for a risk management framework.

The Assistant Investments Manager summarised the key information in the covering report. The funding level rose by 5% over the year as a result of a reduction in the value of the liabilities which was greater than lower than expected investment returns. On a gilts basis the funding level fell from 78% to 72%. Absolute returns had been disappointing with most equity markets produce negative returns. Sterling had appreciated against the Dollar, Yen and Euro, so that currency hedging detracted 1.9% over the year. Relative performance against the benchmark was poor over the year. Longer-term performance had been a little healthier. More than half the

allocation to infrastructure had been drawn down by 1st April. A \$105m commitment to infrastructure was still to be drawn.

Mr Turner commented on the Mercer annual investment report. He drew attention to the index performance summary on agenda page 225 and the manager performance summary on page 229.

RESOLVED to note the information set out in the report.

14 APPROVAL OF DRAFT ACCOUNTS 2015/16

The Finance and Systems Manager (Pensions) presented the report. He reminded Members that though the Fund's accounts were separately audited, they formed part of Bath and North East Somerset's accounts. The Committee was invited merely to note them. They would be presented for approval to the Council's Corporate Audit Committee. He circulated a document listing corrections made to the draft accounts since the agenda had been circulated.

A Member said that she was surprised by the range of employee contributions (5.5%-12.5%) given on page 268. The Finance and Systems (Manager) Pensions replied that they varied according to the profiles of Fund members employed by individual employers.

RESOLVED to note the Draft Statement of Accounts for the year to 31 March 2016 for audit.

15 BUDGET AND CASHFLOW OUTTURN 2015/16

The Finance and Systems Manager (Pensions) presented the report.

RESOLVED to note:

1. Administration and management expenditure incurred for the year to 31 March.
2. Cash Flow Report for the year to 31 March 2016.

16 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS FOR YEAR AND QUARTER ENDING 30 APRIL 2016 AND RISK REGISTER ACTION PLAN

The Acting Pensions Manager presented the report. He drew attention to the entry added to the Risk Register concerning the Brunel Pension Partnership.

RESOLVED to note:

1. Summary Performance Report to 30 April 2016;
2. Performance Indicators and Customer Satisfaction feedback for 3 months to 30 April 2016;

- 3. Progress on the Data Improvement Plan;
- 4. Risk Register top 10 risks.

17 LGPS REGULATORY UPDATE

The Technical and Development Manager presented the report. He asked Members to note the state of play on proposed changes to the LGPS reported in the appendices. He said that the £95,000 cap on exit payments would be unlikely to be implemented before 1st October. In response to a question from a Member, he clarified that the cap related to payments made by employers.

RESOLVED:

- 1. To note the current position regarding the potential changes that would affect the administration of the Fund.
- 2. To note the information regarding the HM Treasury consultations.
- 3. To approve the discretionary policy set out for transfer requests made after the 12 month of scheme entry. The decision to be delegated to specified officers, who must consider:
 - a. whether it would be detrimental to the Avon Pension Fund;
 - b. whether the delay was the result of actions or non-actions of the scheme or employer or administering authority.

18 WORKPLANS

The Investment Manager presented the report.

RESOLVED to note the workplans.

The meeting ended at 2.56 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services