

**AVON PENSION FUND COMMITTEE**

**Minutes of the Meeting held**

Friday, 9th December, 2016, 12.00 pm

**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 Steve Pearce (Bristol City Council), Councillor Mary Blatchford (North Somerset Council), Councillor Mike Drew (South Gloucestershire Council), William Liew (HFE Employers), Ann Berresford (Independent Member), Shirley Marsh (Independent Member) and Wendy Weston (Trade Unions)

**Co-opted Non-voting Members:** Richard Orton (Trade Unions)

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

**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) and Martin Phillips (Finance & Systems Manager (Pensions))

**52 EMERGENCY EVACUATION PROCEDURE**

The Democratic Services Officer advised the meeting of the procedure.

**53 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Apologies were received from Cheryl Kirby.

**54 DECLARATIONS OF INTEREST**

There were none.

**55 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

There was none.

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

Questions were asked and statements were made by Councillor Lin Patterson, Lynda Newbury, Eleanor Field and Dave Searby. The details are given in Appendix 1.

## **57 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

There were none.

## **58 MINUTES: 24 NOVEMBER 2016**

It was agreed that the resolution reported in the public minutes should be the same as that in the exempt minutes, so that

*3. To delegate action to the Panel and Officers as appropriate.”*

in the draft public minutes should be replaced by:

*3. To delegate action to the Panel and Officers as follows:*

- a. Officers to implement annual carbon/climate change analysis of the investments portfolio;*
- b. Officers to implement the agreed engagement priorities;*
- c. Investment Panel to investigate passive equity indices available to reduce carbon exposure, for consideration in the Investment Strategy Review.*

## **59 AMENDMENT OF THE MINUTES OF THE MEETING OF 11TH DECEMBER 2015**

The Assistant Investments Manager informed Members that by an oversight part of the resolution about the revised rebalancing policy agreed at the meeting of 11<sup>th</sup> December had not been recorded in Minute 48 of the meeting, and invited them to agree to correct the omission.

A Member asked how this error had come to light. The Assistant Investments Manager explained that it had been discovered during rebalancing activity when officers had needed to refer to the policy and the resolution.

**RESOLVED** to amend the Minutes of the Meeting of 11<sup>th</sup> December to correct an omission subsequently discovered, by adding at the end of the resolution of Minute 48:

*“3. To agree the recommendation to adopt the proposed rebalancing policy as at 4.3 a)”.*

## **60 INVESTMENT PANEL ACTIVITY**

The Assistant Investments Manager presented the report. The Panel had made one decision: to delegate the setting of the trigger levels of the Liability Risk Management Framework to Officers in consultation with the Investment Consultant, Actuary and relevant Investment Manager. The rationale for this was that market conditions impact the appropriate trigger levels, so these need to be finalised at the point of implementation and in the future as necessary.

## **RESOLVED**

1. To note the decision taken about the implementation of the Liability Management Framework as summarised in paragraph 4.2(1)
2. To note the Minutes of the Investment Panel meeting on 14 November at Appendix 1 and Exempt Appendix 2 and the summary of the Meet the Managers Workshop at Exempt Appendix 3.

## **61 REVIEW OF INVESTMENT PERFORMANCE**

The Assistant Investments Manager introduced this item. He tabled supplementary information concerning the annual assurance review of the control environment of 3<sup>rd</sup> party suppliers, which is given in Appendix 2. The review found no issues of concern.

Mr Turner commented on the Mercer investment report. He said that during the quarter and over the year to date there had been a strong improvement in funding level, which was the key financial measure for the Fund. The funding level had improved by 4% during the quarter and 8% over the last twelve months. One of the main reasons for the underperformance of the Fund return over the quarter had been the impact of the currency hedging programme given the depreciation of sterling following the Brexit vote. However, he did not see any immediate need to change the existing currency hedging policy, as he expected this element of underperformance to be reversed as sterling rose, as it had started to do at the end of the quarter. It had also been an unusual period in that seven of the eight active managers had underperformed. It would normally be expected that with so many active managers there would be reduced risk through diversification. He therefore proposed that as part of the strategic Investment Review in 2017 a series of high-level checks should be carried out to see the extent to which their portfolios overlapped. There were a number of plausible reasons for underperformance. For example Unigestion, one of the emerging markets managers, would be expected to do well when markets fall, but in general markets have been rising and Unigestion's investment style had not matched market conditions.

A Member referred to paragraph 5.4 of the covering report and asked whether there would be a replacement for the local authority average performance report that State Street WM used to produce. The Investment Manager replied that a National Framework for the procurement of performance measurement services would be issued shortly.

A Member asked about the process and timeframe for the strategic Investment Review. The Assistant Investments Manager said this had not been determined yet, though the intention was to complete it during the first half of the year. It would probably be on the agenda of the February Panel Meeting, and there would probably need to be an additional Committee meeting, or at least a workshop. He would give an update about this at the next meeting. A Member cautioned that it was important to make investment decisions on a long-term view and not simply in reaction to current market volatility.

## **RESOLVED:**

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

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

## **62 BUDGET AND CASHFLOW MONITORING 2016/17**

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

He advised that the directly-controlled Administration budget was forecast to be £205,400 below budget, mainly because of the holding over of expenditure on the IT strategy, owing to the Employer Self Service product offer being revised. There was also a forecast of a reduced expenditure on salaries due to the delayed appointment of staff.

In the part of the budget not directly-controlled, expenditure is forecast to be £1,560,000 over budget, mainly because of increased Investment Manager fees resulting from higher asset values in the quarter.

There was a forecast of a net cash outflow for the year of £3m more than forecast in the Service Plan on present trends.

**RESOLVED** to note:

- a) the administration and management expenditure incurred for 7 months to 31 October 2016;
- b) the Cash Flow Forecast to 31 March 2017.

## **63 PENSION FUND ADMINISTRATION**

The Acting Pensions Manager presented the report.

He said that following the receipt of regulatory guidance work continued in-house to clear the backlog of cases relating to scheme transfers in and out and, separately, the membership update. Planned down days had been set aside to target specific work streams, and significant progress was now being made, which would be reflected in the next report to the Committee.

An outcome of the year-end process was that a training programme had been put in place for employers on the provision of accurate and timely data to the Fund. This will be spread over the next six months.

Pension Officers were currently supporting redundancy exercises at Bristol City Council, South Gloucestershire Council and North Somerset Council by providing bulk calculations and information to individual members.

The Pension Regulator's 2016 governance and administration survey had been completed and returned. The results would be reported to the next meeting of the Committee.

The restructuring of the Pensions Administration Team was well under way, and a number of manager and deputy manager appointments had been made. Internal staff moves should be completed by Christmas and backfill by the end of the financial year, so staffing should be up to full complement by the end of March. The new staffing structure would be reported to the next meeting of the Committee.

Members asked questions to which the Acting Pensions Manager responded.

Q: What was the reason for employers' failure to submit full CARE data (paragraph 6.4, agenda page 110)?

A: B&NES and North Somerset both changed their payroll software, which caused some problems. The Administration Team was currently working with both these employers to resolve the problems.

Q: The actual KPI figures for the past three months (agenda page 123) when compared with the 2015/16 actuals seem to indicate a downward trend. Is this due to staffing or other factors?

A: The table in its present form is somewhat misleading as it combines two separate reports. The new set of reports will be introduced at the next meeting of the Committee. At present only part of the data is being reported, and in addition some of the reports reflect the old targets. However, it is true that there is a slightly downward trend.

Q: The employer error rate of 25.57% (paragraph 3.7, agenda page 108) is very high. How is it being addressed?

A: It is actually an improvement over the previous error rate of 34.21%, but it is far too high. Errors are now being dealt with on the day that the employer data are received and before they are entered into the database. With the restructuring of the Administration Team there will be dedicated staff to interface with employers and give them onsite training. Challenges are presented by the increasing number of employers in the Fund, greater staff turnover and the number of different sets of data required, e.g. for the CARE scheme and the final salary scheme.

**RESOLVED** to note:

1. Summary Performance Report and Performance Indicators to 30 September 2016;
2. Customer Satisfaction feedback to 30 September 2016;
3. Progress on the Data Improvement Plan;
4. Risk Register.

## **64 LGPS REGULATORY UPDATE**

The Acting Pensions Manager presented the report.

### LGPS 2014 Regulations

The amendment Regulations were due to be issued by the end of December 2016, but as a result of implementation problems the Regulations relating to "Fair Deal" will now be put into a separate Statutory Instrument and further consultation is required. The Freedom and Choice section also needs modifications, and further discussion

will take place in 2017. The target date for issue of the amendment Regulations is March 2017. A major concern is the near complete lack of staff resource within DCLG.

### Public Sector Exit Payments

It is expected that Recovery Regulations will be laid before Parliament by the end of December 2016 to come into effect in early 2017. Also early in 2017 there will be further consultation on the £95,000 exit cap. Individual departments have been asked to put forward proposals for reform that fit within certain public-sector-wide guidelines. It is intended that these Regulations will come into force by early summer 2017.

**RESOLVED** to note:

- i. the current position regarding the potential changes that would affect the administration of the Fund;
- ii. the current position regarding HM Treasury consultations and pending commencement dates.

## **65 WORKPLANS**

The Investment Manager presented the report.

A Member asked how the Investments Team was coping with such a large workload. The Investment Manager replied that a post to support the Assistant Investments Manager had been backfilled. It was also important to complete work in the right order and not overstretch the Team. Members would be regularly updated on this.

**RESOLVED** to note the workplans.

## **66 POOLING OF INVESTMENTS - FULL BUSINESS CASE**

The Head of Business, Finance and Pensions introduced this item.

It was then **RESOLVED**, the Committee having been satisfied that the public interest would be better served by not disclosing relevant information, that the public should be excluded for the remainder of the meeting, in accordance with the provisions of Section 100(A)(4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraphs 3 and 5 of Part 1 of Schedule 12A of the Act as amended.

After discussion the Committee **RESOLVED** to recommend to Council that it should adopt the following resolution:

In its capacity as the Administering Authority for the Avon Pension Fund, and having received and reviewed the Full Business Case relating to the proposed Brunel Pension Partnership, the Council hereby resolves to enter into investment pooling with respect to the Avon Pension Fund. Such resolution is made on and subject to the following terms and conditions:

- 1) That the Brunel Pension Partnership investment pool is developed, funded and implemented substantially in accordance with provisions in the Full Business Case, and more particularly that:
  - a) A FCA regulated company to be named Brunel Pension Partnership Limited be established and operated substantially in accordance with provisions in the Full Business Case as to its ownership, structure, governance and services capability;
  - b) A new supervisory body be established comprising the Council and all other Administering Authority participants in the Brunel Pension Partnership to act to ensure effective oversight of the Council's investment and participation in the Brunel Pension Partnership.
- 2) The Avon Pension Fund Committee be authorised and granted delegated powers to undertake such tasks as it thinks appropriate to progress implementation of investment pooling, and to take such decisions and do all other things deemed necessary in order to promote the interests of the Council with respect to pooling, which without limitation shall include participation in the development of Terms of Reference and the role of the supervisory board and agreeing and authorising financial expenditure or investment that may be required consequential upon the Council's participation in the Brunel Pension Partnership.
- 3) That the Chief Finance Officer, Chief Legal Officer and Head of Business Finance and Pensions be authorised and granted delegated powers to undertake such tasks as it thinks appropriate to progress implementation of investment pooling, and to take such decisions and do all other things deemed necessary in order to support the Avon Pension Fund Committee with respect to pooling, which without limitation shall include agreeing and authorising documentation and contracts, and informing and advising the Committee on the continued viability and suitability of investment pooling in light of any developments, financial or otherwise, in the period up to the establishment of the Brunel Pension Partnership.
- 4) That subject to the above, all such matters be carried out with the aim of achieving a target date for investment pooling of 1 April 2018, and otherwise subject to such intermediate steps and timescales as may be considered appropriate and necessary by the Avon Pension Fund.

The meeting ended at 3.45 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**

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## **Avon Pension Fund Committee**

**Meeting of 9<sup>th</sup> December 2016**

### **Public Questions and Statements**

#### **1. Councillor Lin Patterson**

##### Written question

*Since it would be helpful for the Committee to know, as well as for those campaigning to stop damaging the climate, please can you provide information as to the sum total of direct investment in fossil fuel companies and also give the total invested indirectly in fossil fuels. If this is sensitive information for the current year, the data for last year will be acceptable, to give some indication.*

##### Written Answer

**In our revised Responsible Investing Policy it was agreed we will be measuring our carbon exposure.**

##### Oral question from Councillor Patterson

*It would be helpful if we are all cognisant of exactly what we are talking about. The answer that is given here is "it was agreed we will be measuring our carbon exposure." My follow-up question is "what do you mean by 'carbon exposure' exactly, and what do you mean by 'measuring' it, and when will those measurements be available to the public?"*

##### Oral Answer

**Carbon exposure is exactly what it says. We need to understand the carbon exposure of all of our holdings. We need to work out exactly how we are going to do it. Our methodology and the results will be reported to the Committee and will be in the public domain. This will be done next year.**

#### **2. Lynda Newbury**

##### Written statement

*Good afternoon, may I firstly thank you for giving us an opportunity to speak to you. Can I also say we welcome the priority given in the Responsible Investment Policy to managing climate change risk.*

*You will be aware that Waltham Forest Pension Fund has recently started the process of full divestment from fossil fuels over a five-year period. Councillor Simon Miller, chairman of the Pension Fund Committee, said: "Waltham Forest Pension Fund is proud to commit to divesting from fossil fuels. Not only does this mean that the fund will not be invested in stranded assets, but will be actively investing in*

*cleaner, greener investments to the benefit of our community, borough, and environment.”*

*Earlier this year, Haringey Pension Fund divested from Coal and invested £200m in a Low-Carbon Fund.*

*This puts these pension funds into a global movement that currently represents a value of \$3.4 trillion. That's divestment by 641 institutions, plus over 50,000 individuals who have divested about \$5.2 billion worth of fossil fuel investments.*

*Appendix 1 to the new RI policy indicates APF plans to catch up fast with the likes of the Environment Agency, Haringey and Waltham Forest when it comes to managing the impact of climate change on the pension fund.*

Written question:

*Could the committee confirm when the members and the local community will find out more about the how the committee plans to deliver on the commitments made in the RI policy and particularly the initiatives in Appendix 1 regarding climate change?*

**Written answer:**

**The Fund will begin its review of the investment strategy in 2017 once the actuarial valuation has been completed**

### **3. Eleanor Field**

Written statement

*Last week EU institutions reached a deal on a reform of the IORPs (Institutions for Occupational Retirement Provision) Directive that affects workplace pension funds holding assets worth EUR 3.2 trillion on behalf of around 75 million citizens of the Union.*

*The changes include a clear requirement for EU workplace pension funds to:*

- 1. consider climate risk and risks related to the depreciation of assets due to regulatory change (“stranded assets”) in investment decisions*
- 2. not limit investment decisions to financial considerations only, but include environmental, social, and governance (ESG) issues as well.*
- 3. consider the needs of both future and current generations by taking a long term view*

*The UK Pensions Minister has confirmed the directive will become UK law as the deadline for implementation will expire before Brexit takes effect. For those coal companies, that hadn't gone bankrupt, the election of Donald Trump has given their share prices a temporary boost - now is an ideal time to start the process of reducing*

*climate risk that you committed to in the RI policy, by selling investments in coal companies.*

Written question:

*Can the committee please outline their initial plan for complying with this directive?*

Written answer:

**The Responsible Investing Policy complies with the directive in that it:**

- (i) considers the impact of climate change risks in its investment decisions;**
- (ii) takes into account all risks that can have a financial impact on the assets and**
- (iii) acts as a long term investor.**

#### **4. Dave Searby**

Oral Statement

I just want to touch briefly again on the issue of stranded assets, about which I spoke to you at the March meeting. Just to reiterate that the concept of stranded assets means that there are not just environmental and social drivers behind divesting from fossil fuels, but also financial drivers. After the Paris Agreement fossil fuel companies must leave in the ground something in the order of two thirds of what they believed their extractable assets were. Their share prices are based on a much higher rate of extraction, so the concept is that their share prices are overvalued, and therefore financially a bad place for council and pension fund investments.

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## **ITEM 10 - SUPPLEMENTARY INFORMATION**

### **ANNUAL ASSURANCE ON CONTROL ENVIRONMENT OF 3RD PARTY SUPPLIERS**

As part of the risk management process the Fund annually reviews the internal control reports (ICR) of the custodian and investment managers (and their administrators where relevant), and reports the findings to Committee. These reports are often designated SSAE16 or ISAE3402 reports (previously AAF 01/06 and SAS70 reports), that states which set of standards are being reported against.

ICR reports describe the internal control environment of an organisation. The management of the organisation are responsible for identifying the control procedures which they consider appropriate to enable certain control objectives to be met. External auditors verify that the controls identified are in place and comment on whether the controls will achieve the stated objectives or not.

For the reports reviewed in 2015/16, in each case the external auditor's report stated that the controls were in place and achieved the control objective and there are no issues to bring to the attention of the Committee. As part of the process, officers discuss the significance of the internal control reports with investment managers and custodian on an on-going basis and follow-up any issues flagged in the reports.

The ICRs of the pooled funds (and their administrators/custodian) and the Fund's custodian are also audited by the Fund's external auditor as part of the annual audit.

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