

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 22nd June, 2018, 2.00 pm

Bath and North East Somerset Councillors: David Veale (Chair), Patrick Anketell-Jones, Shaun Stephenson-McGall, Lisa O'Brien and Rob Appleyard

Co-opted Voting Members: Councillor Mary Blatchford (North Somerset Council), Councillor Steve Pearce (Bristol City Council), Councillor Toby Savage (South Gloucestershire Council), William Liew (HFE Employers) and Shirley Marsh (Independent Member)

Co-opted Non-voting Members: Richard Orton (Trade Unions) and Wendy Weston (Trade Unions)

Advisors: Ross Palmer (Mercer)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Nathan Rollinson (Assistant Investments Manager), Steve Makin (Communication and Public Relations Manager), Carolyn Morgan (Employer Services Manager) and Martin Phillips (Finance & Systems Manager (Pensions))

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

2 ELECTION OF VICE-CHAIR

It was proposed by Councillor O'Brien and seconded by Councillor Appleyard and **RESOLVED** that Councillor Patrick Anketell-Jones should be Vice-Chair of the Committee for the Municipal Year 2018/19.

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cheryl Kirby.

4 DECLARATIONS OF INTEREST

Cllr Toby Savage advised that was now Leader and a Cabinet Member of South Gloucestershire Council. He did not think this would conflict with, or impact on, his role with the Committee. The Head of Business, Finance and Pensions suggested that Cllr Savage might wish to have a named substitute to the Committee in case his commitments occasionally prevented him attending meetings.

5 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Head of Business, Finance and Pensions announced that Paul Scott, Independent Member, had resigned from the Committee after his appointment as a Chief Investment Officer for an investment fund. A successor was being recruited.

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

There were none.

7 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

8 MINUTES OF PREVIOUS MEETING: 23RD MARCH 2018

The public and exempt minutes of the meeting of 23rd March 2018 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 reminded Members that this was an annual item, which set out the governance arrangements for the Fund. This year Members were being invited to agree revised Terms of Reference for the Committee to reflect the impact of the Brunel Pension Partnership. Once approved by the Committee, the Terms of Reference would be presented to the Council for approval in September. As usual, Members were invited to approve the General Compliance Statement (also updated to reflect the impact of Brunel), and to appoint members to the Investment Panel and representatives to the Local Authority Pension Fund Forum.

In response to a question from the Vice-Chair about the reference in paragraph 1.6 to possible further changes to the Fund's governance, she suggested that the Committee might wish to review the role of the Investment Panel as the transition of assets to Brunel progressed.

A Member noted that the Terms of Reference included no reference to duties in relation to funding, or the power to require covenants from employers. The Investments Manager suggested that these were covered by key duty 8 *"commissioning actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations"* and in delegations to the actuary and to officers.

A Member suggested that the Investment Panel should be given the specific function of overseeing the transition of assets to Brunel. It was agreed that item 9 of the duties of the Panel *"Monitor the investment performance of the portfolios managed by Brunel"* should be amended by the insertion after *"monitor the"* of *"the transition of assets to Brunel and"*.

A Member asked whether the fact that Mercer were both investment advisors and actuary to the Fund might give rise to the possibility of conflicts of interest. The Investments Manager replied that this was not the case, because these were two discrete areas of work done under separate contracts, which were reviewed regularly and could be awarded to separate organisations.

It was agreed that the existing members of the Investment Panel should be reappointed for a further year, leaving one vacancy for the time being.

It was agreed that Steve Pearce and Richard Orton would be nominated as the Fund's representatives to the Local Authority Pension Fund Forum.

It was noted that Richard Orton would replace Wendy Weston as voting trade union Member with immediate effect.

RESOLVED:

1. To note the roles and responsibilities of the members, advisors and officers;
2. approve the draft revised Terms of Reference of the Committee and Investment Panel with the amendment to item 9 of the duties of the Panel recorded above;
3. approve the Governance Compliance Statement;
4. agree the membership of the Panel as recorded above;
5. agree the members to represent the Fund on the Local Authority Pension Fund Forum as recorded above.

10 DRAFT STATEMENT OF ACCOUNTS FOR 2017/2018

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

He reminded Members that the Fund's accounts were subject to a separate audit, but formed part of the Council's accounts. Under the 2015 Audit Regulations the accounts had to be audited by 31 July. The audited statement of accounts would be considered by the Corporate Audit Committee at its meeting on 30th July before going to Council on 21st September. The Committee was invited to note the draft accounts.

A Member asked about transaction costs (agenda page 37, paragraph (I)). The Finance and Systems Manager explained that, in accordance with CIPFA recommended practice, transaction costs are disclosed separately when they can be identified, but this was not possible when they were included within a pooled fund. At present year-on-year comparisons of investment costs could only be made by adding together management fees and transaction costs. The Investments Manager explained that eventually every manager would have to state transaction costs separately. It was hoped that better information would be available from next year. A Member was concerned that the information was not available now. He had thought that a system for reporting investment costs had been developed and was only awaiting approval from FCA. The Investments Manager replied that it was essential

to ensure that the information we disclose is accurate. Most managers had agreed to provide the information, and there would be much more accurate reporting of costs from next year; however the LGPS template only covered quoted assets. FCA had taken over the responsibility for producing a costs template from LGPS. FCA's template is expected to be very similar to that developed by LGPS and extended to include non-quoted assets. Once it is issued, expected in July, managers will have up to one year to prepare their systems for its use and to report in line with the template. She hoped that full information from managers would be available from next financial year.

In reply to a question from a Member the Investments Manager explained that the value of the Fund was calculated by the aggregation of the value of the manager portfolios. A workshop on the next valuation would be held before the September Committee, at which this would be explained.

A Member asked how the transfer of the Pensions Financial Systems team from the Fund to the Council for "operational efficiency" had led to an increase in administration costs from £346k to £473k. The Head of Business, Finance and Pensions replied that 2.5 FTE staff had been transferred to the Council's team and there had been a corresponding reduction in the salary costs. The Pensions finance systems were better managed within the Council's team, and there had been no increase in operating costs.

RESOLVED to note the Draft Statement of Accounts for the year to 31 March 2019 for audit.

11 UPDATE ON BRUNEL PENSION PARTNERSHIP

The Investments Manager presented the report. She reported that a review of the original Brunel business case approved by Council had begun, and should be completed by February/March of next year.

A Member noted that it was reported in paragraph 4.2(f) that Brunel's Responsible Investing Policy included all the aspects within Avon's current RI policy, and asked whether it went beyond it any way. The Investments Manager replied that it did as it will have a pool wide voting policy for segregated mandates which the Fund does not currently have; also there should be greater disclosure and transparency of reporting, because Brunel had greater resources for this.

In response to a question from the Vice-Chair, she explained that it had been agreed at the outset that each of the ten funds in the Brunel partnership would hold an equal 10% of Brunel shares, and that the size of their shareholding would not depend on the number of their members or the value of their assets. The Vice-Chair asked whether there was any risk associated with equal shareholdings. The Head of Business, Finance and Pensions said that the pooling agreement actually makes it very difficult for a fund to leave the pool. The fact that Avon was the biggest fund in the pool meant that its ability to achieve economies of scale from pooling was not necessarily as great as that of other funds, though it would undoubtedly make savings in some portfolios.

A Member was concerned to note that there were three apologies from Pension Committee representatives at the last meeting of the Oversight Board, and asked

whether substitutes were allowed. The Head of Business, Finance and Pensions replied that this was discussed at the last meeting of the Oversight Board, as a result of which there is a proposal to amend the shareholders' agreement to allow funds to send a properly-trained fund committee member as a substitute to meetings of the Board.

Before discussing the exempt appendices to this item the Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED** that the public should be excluded during the discussion of exempt appendices 2a, 2b, 3a and 3b to this item and that the reporting of this part of the meeting be prevented, 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 paragraph 3 of the Schedule 12A of the Act as amended.

RESOLVED to note:

1. the progress on the pooling of assets;
2. the updated project plan for the transition of assets;
3. the Internal Audit report.

12 EMPLOYER UPDATE AND COVENANT ANALYSIS

The Investments Manager presented the report. Members were invited to note:

- the changes in the scheme employers and admission bodies since the 2016 valuation
- the summary of the revised Covenant process being implemented as a result of the increased number of employers in the Fund
- the impact of the LGPS (Amendment) Regulations 2018, which entitle scheme employers to receive an exit credit payment from the Fund with effect from 18 May 2018

Before discussing Exempt Appendix 1 of this item, the Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED** that the public should be excluded during the discussion of the appendix and that the reporting of this part of the meeting be prevented, 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 paragraph 3 of the Schedule 12A of the Act as amended.

RESOLVED to note the information in the report.

13 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report.

RESOLVED to note the minutes of the Investment Panel of 23 May 2018 at appendix 1 and Exempt Appendix 2 as summarised in paragraphs 4.2 and 4.3.

14 ANNUAL REVIEW OF INVESTMENT STRATEGY AND PERFORMANCE

The Assistant Investments Manager presented the report.

Mr Palmer presented the Mercer investment report.

A Member noted the statement in 4.2(1) that the funding level had increased 1% over the year from 95% to 96% and contrasted this with the graph on agenda page 153 which showed a 4.5%-5% fall in the funding level between December 2017 and January 2018. He requested clarification about the cause of this fall. Mr Palmer said that this had been caused by a fall in the equity markets in the first quarter of 2018. There was a strong rally over the previous two years, followed by a sharp sell-off from early February to mid-March. The impact on the Fund would have been worse if the equity protection strategy had not been in place, as indicated in the bar chart and commentary on page 153.

The Vice-Chair noted that the median 3-year return of local authority pension funds (as reported on agenda page 208) was 7.7%, whereas Avon's return was in the bottom quartile at 7.0%. He wondered whether Avon might be focussing too much on risk. The Investments Manager replied that Avon differed from most other funds in having currency hedging in place, which made comparisons difficult. The Head of Business, Finance and Pensions said that the key figure was the funding level, and there is no information in the Pension Performance Statistics about funding levels. Other funds may be making higher returns because they have to take a higher level of risk to improve their funding levels. The whole point of the valuation exercise is to decide on an appropriate level of risk and balance risk and return. It would be more prudent for the Fund to focus on maintaining a high funding level rather than on making big investment gains. A Member said that it should be borne in mind that while the Fund has to pay pensions, it does not have to pay them until they become due, and so can afford to be patient.

RESOLVED to note:

1. The information set out in the report
2. LAPFF Quarterly Engagement Report at Appendix 4

15 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS FOR YEAR AND QUARTER AND RISK REGISTER

The Communications and Public Relations Manager presented the report and summarised the key information:

- 30 new employers joined the Fund during the quarter, the majority of these being academies and associated community bodies. A number of schools outsourced their payroll to third-party providers. A further 72 potential new employers were in the pipeline. In addition B&NES is outsourcing its school catering, which potentially will create a number of new employers.

- There had been an overall improvement in administration performance over the previous quarter and the majority of priority cases are now actioned within target.
- Performance against statutory targets is now given (Appendix 2b) in areas for which there are also SLA targets. Performance against statutory targets and SLA targets cannot be directly compared because the statutory definitions are different.
- Work continues on backlogs. 80 cases out of a 190 case backlog of inter-fund transfers have been cleared and work will commence shortly on the backlog of member aggregation cases.
- Work commenced on a project to roll out iConnect to all employers at the end of March 2018. A summary of progress on strategic projects included in the Service Plan will be included in future Committee reports.
- Administrators had developed detailed reports to measure compliance with the TPR data improvement plan for common and scheme-specific data. Errors identified are prioritised and for active members employers are provided with a quarterly data exception report. Overall errors had reduced over the past quarter and the Fund will take additional steps when required to follow up with employers to improve compliance.

A Member referred to the list of late paying employers in Appendix 5, and asked whether it was possible to charge interest on late payments. The Finance and Systems Manager (Pensions) confirmed that this was possible when payment was more than one month late. The Member was concerned that some employers were making late payments more than once. The Finance and Systems Manager (Pensions) replied efforts were made to encourage employers to pay on time, but some of them were not good at operating their payroll systems or lacked good internal organisation.

Members discussed the usefulness of the SLA targets when the performance figures so often failed to reach them. The Head of Business, Finance and Pensions said this point had been made by the Pension Board in relation to the SLA and the statutory targets. The Pension Board had even suggested that the statutory targets were not fit for purpose. A Member suggested that the performance figures should indicate when the clock is stopped because information is awaited from an employer or other third party. The Head of Business, Finance and Pensions said the Pension Board had looked at this and had been surprised by how long sometimes it took employers and individuals to respond.

RESOLVED to note:

1. Membership data, Fund and Employer performance for the 3 months to 31st March 2018;
2. Progress and reviews of the TPR Data Improvement Plan.

16 BUDGET AND CASH FLOW MONITORING 2017/18

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

RESOLVED to note:

1. The administration and management expenditure incurred for the year to 31 March 2018;
2. The Cash Flow report for the year to 31 March 2018.

17 UPDATE ON LEGISLATION

The Technical Manager presented the report.

RESOLVED to note the current position regarding the developments that could affect the administration of the Fund.

18 ANNUAL REPORT TO COUNCIL 2018

The Investments Manager presented the report.

She said that the Committee's Annual Report would be presented to the September meeting of the Council, as would the Committee's amended Terms of Reference and the annual report of the Pension Board.

The Vice-Chair asked whether an indication could be given of the cost savings from pooling referred to on page 279. The Investments Manager said that she would be reluctant to do so, though this would be done in future years as the transition unfolds when there was more transparency around investment management fees, transition costs and savings. The Vice-Chair suggested that this was vital information, as cost saving had been one of the main rationales for pooling. A Member pointed out that, as stated in the draft report, the Government's desire to increase the capacity of the LGPS to invest in infrastructure was also a major driver of pooling.

RESOLVED to approve the Annual Report to Council.

19 WORKPLANS

The Investments Manager presented the report.

RESOLVED to note the workplans and training programme for the relevant periods.

The meeting ended at 4.24 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services