

**Minutes of the Meeting held**

Friday, 6th December, 2019, 2.00 pm

**Bath and North East Somerset Councillors:** Bruce Shearn (Chair), Paul May and Manda Rigby

**Co-opted Voting Members:** Councillor John Cato (North Somerset Council), Councillor Steve Pearce (Bristol City Council), Councillor Toby Savage (South Gloucestershire Council), William Liew (HFE Employers), Shirley Marsh-Hughes (Independent Member) and Pauline Gordon (Independent Member)

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

**Advisors:** Steve Turner (Mercer), Richard Fanshawe (Brunel Pension Partnership), Catherine Dix (Brunel Pension Partnership) and Gillian de Candole (Brunel Pension Partnership)

**Also in attendance:** Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Nathan Rollinson (Assistant Investments Manager), Geoff Cleak (Pensions Manager) and Carolyn Morgan (Governance and Risk Advisor)

**35 EMERGENCY EVACUATION PROCEDURE**

The Democratic Services Officer advised the meeting of the procedure.

**36 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Apologies were received from Councillor Shaun Stephenson-McGall, John Finch, John Goddard and Wendy Weston.

**37 DECLARATIONS OF INTEREST**

There were none.

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

There was none.

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

There were none.

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

There were none.

#### **41 MINUTES: 27 SEPTEMBER 2019**

The public and exempt minutes of the 27 September 2019 were approved as a correct record and signed by the Chair.

#### **42 PRESENTATION ON PRIVATE DEBT**

The Investments Manager reminded Members that at the Strategic Review workshop on 7 November possible private market allocations had been discussed, and questions had been raised about the form that a portfolio might take. It was agreed that Brunel should be invited to give a presentation to the Committee about their intentions for such a portfolio. The proposal was that participating clients would commit allocations, which would be invested over a period in funds that Brunel would select on their behalf.

Before receiving the presentation 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 from the meeting for the duration of this item, and that the reporting of this part of the meeting should 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 Schedule 12A of the Act as amended.

**RESOLVED** to note the presentation on Private Debt from Brunel.

#### **43 UPDATE ON LEGISLATION**

The Pensions Manager presented the report.

##### McCloud

The Employment Tribunal has begun considering the case in relation to the Judges and Firefighters' pension scheme. It is possible that the remedy will not have to be applied to the LGPS before 21/22. The LGA advised that funds should contact employers asking them to provide details of part-time members and service rates back to 2014, information needed in connection with the CARE scheme. This of course will create extra work for the Administration team. Resources are being managed in anticipation of this. It is hoped that that an estimate of the extra work can be made to the Committee at the March meeting. A significant problem is that some employers are being asked for information which they no longer hold because of changes in the interim period. This has been noted by LGA, who have reported to MHCLG that some information may not be available. The Cost Cap exercise will be rerun once a remedy for McCloud has been agreed.

In reply to a question from a Member, the Pensions Manager said that the Fund would be seeking McCloud –related information back to 2014 from employers in the new year. This information would be mandated as a reporting requirement for employers in the future

#### Public Sector Exit Payments Cap

There is still no information about when regulations are likely to be brought forward, though April 2020 is a possible date.

#### Good Governance in the LGPS

The SAB has published a second report outlining expectations for LGPS funds. Avon already makes efforts to measure employer performance as well as the performance of the central administration of the Fund. It is likely that standards of employer performance will be mandated for all LGPS funds.

The Head of Business, Finance and Pensions said that the SAB considering introducing statutory guidance for funds, which could specify mandatory training for Members of the Committee. It could also include peer assessments and peer reviews, a mandatory biennial governance review and a nominated responsible officer. The SAB now has a clear direction of travel on governance, so significant changes can be expected. Avon was well placed to deal with this.

#### Responsible Investment

The SAB has published draft guidance for consultation and the Fund will be submitting a response.

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

## **44 UPDATE ON POOLING**

The Investments Manager presented the report.

She said that transition was still on track. The Emerging Markets portfolio transitioned in October. The transition manager was currently working through the Global High Alpha portfolio. At its last meeting the Investment Panel had received the Brunel quarterly report. Information about Brunel reporting will be given to the March meeting of the Committee, so that Members understand what information the Panel is receiving and how Brunel’s performance is being monitored.

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 from the meeting during the consideration of the Exempt Appendices to this item, and that the reporting of this part of the meeting should 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 Schedule 12A of the Act as amended.

After the discussion the Committee **RESOLVED** to note:

1. the progress made on pooling of assets;
2. the updated project plan for the transition of assets.

#### **45 INVESTMENT PANEL ACTIVITY**

The Assistant Investments Manager presented the report.

Members noted the decision of the Panel about the Equity Protection Strategy, as set out in Exempt Appendix 2, and the review of inflation hedging in the Liability Driven Investment Strategy requested by the Panel, as set out in paragraph 4.2 of the covering report.

A Member asked how much extending protection to emerging markets would cost. The Investments Manager replied that costs for this had not been estimated, but an estimate would be included with the proposal; protection costs would obviously increase because more was being hedged. Mr Turner (Mercer) further commented that the structure used to implement the strategy would be the same as the original protection strategy, and target a zero (or minimal) upfront premium. By protecting a larger equity notional value the opportunity cost would increase where the Fund limits its potential to participate in unlimited upside gains of emerging market equities. Management fees for the strategy had been negotiated lower by Brunel.

**RESOLVED** to note the minutes of the Investment Panel meeting on 19 November at Appendix 1 and Exempt Appendix 2.

#### **46 REVIEW OF INVESTMENT PERFORMANCE**

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The Assistant Investments Manager presented the report.

Mr Turner presented the Mercer investment report. Members noted that the funding level had remained stable. Mr Turner said that as the Brunel report covered more of the current performance of portfolios, the Mercer report would increasingly focus on strategic issues and the monitoring of Brunel.

A Member said that he could not recall seeing the Brunel quarterly report. The Investment Manager responded that at present the Brunel quarterly report and the Mercer report were very similar. Investment information presented to the Panel and the Committee would be reviewed. It was the Committee's responsibility to monitor Brunel overall, while the Panel focused on the individual investment mandates.

A Member asked whether there were sufficient resources to monitor Brunel. The Head of Business, Finance and Pensions replied that there would be recruitment to the Investment team, which would require additional funding. A proposal would be brought to the next meeting of the Committee. The Investment Manager added that Mercer would also be providing more support in the short term.

**RESOLVED** to note:

1. the information set out in the report;
2. LAPFF Quarterly Engagement Report at Appendix 3

## **47 PENSION FUND ADMINISTRATION**

The Pensions Manager presented the report.

Members noted that performance against KPIs continues to improve. Available staff resource continued to be affected by maternity leave and resignations. Since the last staff restructure in January 2017, full staff resources had only been available for a couple of weeks. Recruitment was continuous. About 4% of employers would receive a penalty charge for poor performance at year end. As in previous years training was offered to employers as an alternative to a penalty charge. One employer was a repeat offender, so would be fined as well as offered training.

He drew attention to the information about the TPR breach contained in Annex 1. Processes had been reviewed and measures had been put in place by the Fund to prevent a recurrence. ICO had responded that no further action is required in addition to the measures taken by the Fund. A meeting had been held with the software supplier about incorporating further controls in the systems used by the Fund. A team is being assembled to deal exclusively with the uploading of employer data; the Committee's approval for the creation of an additional four posts for this team is requested. A costed proposal is contained in Annex 2. The administration budget this year is considerably underspent, so there will be no immediate impact on the budget, though there will be an additional cost of £140,000 in future years. Members noted that this as temporary measure and that the Committee would be consulted before final arrangements were put in place.

After discussion the Committee **RESOLVED** to:

1. note membership data, Fund and Employer performance for the 3 months to 30th September 2019;
2. note progress and reviews of the TPR Data Improvement Plan;
3. approve the additional resource requirements as set out in Annex 2.

## **48 BUDGET AND CASH FLOW MONITORING**

The Investments Manager presented the report.

**RESOLVED** to note

1. the administration and management expenditure incurred for 7 months to 31 October 2019;
2. the Cash Flow Forecast at 31 October 2019.

## **49 TERMS OF REFERENCE AMENDMENT**

The Governance and Risk Advisor presented the report. She explained that because of a drafting error an incorrect version of the Committee and Panel's terms of reference had been approved by the Council at its Annual General Meeting in May. The error concerned the rule about composition of the Panel's quorum as explained in paragraphs 4.1 and 4.1 of the report. The current version states that:

“The quorum of the Panel shall comprise 3 Members, who shall include at least one Member who is a Bath & North East Somerset Councillor.”

This should be amended to:

“The quorum of the Panel shall comprise 3 Members, who shall include at least one Member who is not a Bath & North East Somerset Councillor.”

**RESOLVED** to approve the amendment to the Terms of Reference.

## **50 CMA ORDER**

The Investments Manager presented the report.

She explained that the Competition and Market's Authority (CMA) had concluded after its investigation into the fiduciary management and consultancy market that pension funds, including the LGPS, need to set their investment advisors 'strategic objectives'. The CMA has set a deadline of 10 December 2019 for pension funds to set their investment advisors these strategic objectives. Pension funds could be fined if they accept investment advice without these strategic objectives being in place. The Committee was invited to approve the draft letter setting strategic objectives for Mercer contained in Exempt Appendix 1.

**RESOLVED** to approve the Letter to Mercer in Exempt Appendix 1 setting out the Strategic Objectives.

## **51 WORKPLANS**

The Governance and Risk Advisor presented the report.

**RESOLVED** to note work plans and training programme for the relevant period.

The meeting ended at 4.13 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**