

Minutes of the Meeting held

Friday, 21st September, 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), William Liew (HFE Employers), Richard Orton (Trade Unions), Shirley Marsh (Independent Member) and Pauline Gordon (Independent Member)

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

Advisors: Steve Turner (Mercer) and Ross Palmer (Mercer)

Also in attendance: Howard Pearce (Chair of the Pension Board), Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Nathan Rollinson (Assistant Investments Manager) and Geoff Cleak (Pensions Manager)

20 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

21 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

22 DECLARATIONS OF INTEREST

There were none.

23 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

25 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

26 MINUTES: 22 JUNE 2018

The public and exempt minutes of the meeting of 22 June 2018 were approved as a correct record and signed by the Chair.

27 PENSION BOARD DRAFT MINUTES: 19 JULY 2018

RESOLVED to note the draft public and exempt minutes of the Pension Board meeting of 19 July 2018.

28 PENSION BOARD ANNUAL REPORT

Howard Pearce, Chair of the Pension Board, presented the report. He began by reminding Members of the role of the Board, as set out on page 2 of the report (agenda page 35) and that the Board had existed for 3 years. Members noted the work and forward plan of the Board (pages 8-11/agenda pages 41-44) and reminded themselves of the advice given and recommendations made to the Fund (Appendix 1).

A Member noted the concern expressed by the Board at the very low attendance at the Fund's employers' conference and asked what steps could be taken to encourage them to do so. Mr Pearce suggested that the Fund could arrange smaller training sessions and employers to allow relevant staff a day off work to attend. The Fund should give early notice of forthcoming events and encourage employers to attend the annual conference. The Head of Business, Finance and Pensions said that the holding of an annual conference is good practice. The Fund did hold quite a number of other engagement sessions for employers and tried to reach as many employers as possible, though this could be very difficult with the small employers. Replying to the Member, he said that the Fund tended not to hold events in the evening; the last time this had been done was in 2014 to explain the changes to the LGPS being implemented at the time.

A Member asked whether the Board had received the list of repeat late payers that it had requested. Mr Pearce replied that the Board was receiving regular reports on late payers. The Board took assurance from the last report in which there were no repeat late payers and from which it appeared that late payments occurred by accident or oversight.

A Member said the Board's report was useful and helpful. However, she did have a concern that there might be duplication between the work of the Board and that of the Committee and wondered how this could be minimised. Mr Pearce agreed that there was a risk of duplication, since the respective Terms of Reference for the Board and the Committee had similarities. The agendas for the Board and the Committee did need to be co-ordinated, but the Board's focus was on the governance of the Fund and its overall decision making process, not low-level detail.

Replying to another Member Mr Pearce said that the report would be presented to the Council and sent to Fund members. It would provide to the Council as

administering authority an independent assessment of the governance and administrative efficiency of the Fund.

RESOLVED to note the Pension Board Annual Report 2017/18.

Mr Pearce withdrew from the meeting.

The Head of Business, Finance and Pensions advised the Committee that at its last meeting the Pension Board had requested that the Chair (with the possibility of substitution by another Board member) be accorded observer status at meetings of the Committee, which would include the right to attend exempt sessions. This would require an amendment to the Committee's Terms of Reference, which could be implemented in time for the December meeting. He invited Members to express their views about this.

Members discussed the request in depth including:

- whether attending exempt sessions would cause conflicts of interest and confusion of roles;
- whether in order to scrutinise the governance process, the Board needed to attend exempt sessions and listen to the Committee's deliberations;
- that the minutes should provide adequate sight of the process and decisions.

The overriding concern was that this could lead to a confusion in roles and initial conclusion was that the functions of the Committee and Board were best kept separate to avoid potential conflicts of interest. The Head of Business, Finance and Pensions said that he would discuss the matter further with the Chair of the Pension Board and report back.

29 UPDATE ON BRUNEL PENSION PARTNERSHIP

The Investments Manager presented the report.

She drew attention to the draft minutes of the Brunel Oversight Board (BOB) meeting of 18 July 2018. The next meetings of BOB would be in September and November. The November meeting would discuss the business plan and budget for 2019/20 to be submitted to the shareholders for approval. The transition to the passive equity portfolio was completed in July in line with the timetable, so BlackRock are no longer managing the Low Carbon Fund; it is now managed by Legal & General using the same benchmark index. The selection process for two active equity portfolios, UK Equities and Low Volatility, is reaching the final stage. Mercer has confirmed that the new portfolio will meet Avon's strategic objectives. As far as private market investments were concerned, Avon had made commitments to the Secured Income and Infrastructure portfolios in line with its strategic asset allocations of 7.5% and 2.5% respectively. Mercer had again confirmed that these portfolios will meet the Fund's strategic objectives. Brunel was creating an Authorised Contractual Scheme (ACS) which would give Brunel greater power to impose its own voting policy. This is a positive for the Fund as currently we adopt the voting policies of our fund managers.

A Member referred to item 5 of the BOB minutes (agenda page 57) and asked whether this was a move by Brunel to manage private market investments in-house. He also wondered whether the request for additional funding for this function indicated that the original budget estimate bid had been insufficient. The Investments Manager replied that the private markets were a complex area to model in the original business case. Certain assumptions had been made in the business case, but having set up the private market team and launch initial private market portfolios, Brunel realised they need middle office support for each portfolio. The extra resource will allow the savings to be delivered. The Business case always assumed that private markets would eventually be managed in-house where there was expertise. Indeed setting up the private market portfolios is ahead of the business case plan.

A Member asked whether the remuneration report, which was the subject of item 4 of the BOB minutes, could be shared with the Committee. The Head of Pensions replied that as it is a special reserved matter which requires unanimous approval of the shareholders. It might be possible to share it with Members at a later date, but this could not be done within the decision-making cycle.

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 consideration of exempt appendices 2a, 2b, 4 and 5 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 Schedule 12A of the Act as amended.

After it was **RESOLVED** to note:

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

30 ANNUAL REVIEW OF RISK MANAGEMENT STRATEGY

The Investments Manager presented the report.

A Members' workshop had been held before the meeting in preparation for this first annual review of the Risk Management Framework. At its meeting on 10 September 2018 the Investments Panel had recommended that the current trigger framework for the LDI portfolio be maintained as detailed in paragraph 4.4 of the report.

Before considering the Mercer Risk Management Framework Overview report, the Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance with section 100(A)4 of the Local Government Act 1972, that the public be excluded during the discussion of the exempt appendix to this item, and that the reporting of this part of the meeting be prevented, because of the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12A of the Act as amended.

After discussion, the Committee returned to open session and **RESOLVED**:

1. to agree the Panel recommendation that the existing trigger framework for the LDI strategy should be maintained, subject to further review by the Panel;
2. to delegate the decision whether to use dynamic hedging in the equity protection strategy to the Investment Panel;
3. to delegate to officers in consultation with the Chair of the Panel restructuring of the equity protection strategy as advised by the investment consultant;
4. to note Mercer's report reviewing the strategies and collateral position.

31 DRAFT INVESTMENT STRATEGY STATEMENT

The Investments Manager presented the report.

Members noted that final version of the Investment Strategy Statement would return to the Committee in December after it had been reviewed by the Pension Board.

RESOLVED:

1. to approve the draft Investment Strategy Statement for consultation with the Pension Board;
2. to agree to review the ISS annually and delegate operational updates to officers in between reviews.

32 GMP RECONCILIATION

The Committee having been satisfied that the public interest would be better served by not disclosing relevant information **RESOLVED**, in accordance with section 100(A)4 of the Local Government Act 1972, to exclude the public for the discussion of this item and to prevent the reporting of this part of the meeting, because of the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12 A of the Act as amended.

After discussion it was **RESOLVED** to approve a course of action in relation to this matter.

33 CORPORATE BOND HEDGING STRATEGY

The Committee having been satisfied that the public interest would be better served by not disclosing relevant information **RESOLVED**, in accordance with section 100(A)4 of the Local Government Act 1972, to exclude the public for the discussion of this item and to prevent the reporting of this part of the meeting, because of the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12 A of the Act as amended.

After discussion the Committee **RESOLVED** to approve the recommendation.

34 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report.

RESOLVED to note the minutes of the Investment Panel meeting on 10 September 2018 at Appendix 1 and Exempt Appendix 2.

35 INVESTMENT STRATEGY AND PERFORMANCE

The Assistant Investments Manager presented the report and summarised the key information.

Mr Turner presented the Mercer Quarterly Investment Review.

RESOLVED:

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

36 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS AND RISK REGISTER

The Pensions Manager presented the report.

He said that during the reporting period an additional 57 employers had joined the Fund, the majority being academy conversions and associated admitted bodies. There were a potential 60+ new employers in the pipeline.

The report showed an overall downturn in performance against SLA compared with the previous quarter, owing mainly to staffing levels and significant training requirements for new staff and existing staff acting up into more senior roles. Performance against statutory deadlines was on target in all areas. The project to clear the backlog of inter-fund transfers had been completed, and work had started on clearing the backlog of Aggregation cases; 800 of the near 4,000 cases had been cleared since the project began in mid-July. The project to roll out IConnect solution across employers had made excellent progress, with almost two thirds of active members now covered by monthly data returns. Of the missing member cases identified by the address tracing process about 20% had updated their contact details. This project is ongoing. The TPR data score at 30 June was calculated 94.48%, slightly up on the previous quarter, mainly as a result of the year-end data reconciliation exercise. Errors identified are reported quarterly to employers. Errors in TPR data were up slightly on the previous quarter.

RESOLVED to note:

1. membership data, and Fund and Employer performance for the 3 months to 30th June 2018;
2. progress and reviews of the TPR Data Improvement Plan.

37 BUDGET AND CASHFLOW MONITORING

The Investments Manager presented the report.

RESOLVED to note:

- 1. the administration and management expenditure incurred for 4 months to 31 July 2018.
- 2. the Cash Flow Forecast to 31 July 2018.

38 UPDATE ON LEGISLATION

The Pensions Manager presented the report.

He said that there had been little movement on issues, but the Treasury had recently issued draft amendments to the guidance to GAD on public sector pension scheme valuations

(see <https://www.gov.uk/government/publications/public-service-pensions-2016-valuations-supplementary-documents>)

Treasury have issued draft amendments to Directions relating to the scheme valuation and cost management process for public service schemes, proposing to move all LGPS Funds in the UK to a quadrennial cycle from 2020 to enable GAD to facilitate comparison with other public sector schemes.

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

39 WORKPLANS

RESOLVED to note the workplans.

The meeting ended at 4.35 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services