

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 27th September, 2019, 2.00 pm

Bath and North East Somerset Councillors: Bruce Shearn (Chair), Chris Dando, 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), Wendy Weston (Trade Unions), Pauline Gordon (Independent Member), John Finch (Independent Member) and Shirley Marsh-Hughes (Independent Member)

Co-opted Non-voting Members: Richard Orton (Trade Unions) and Michael Rumph (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), Nathan Rollinson (Assistant Investments Manager), Geoff Cleak (Pensions Manager), Kathryn Shore (Technical and Compliance Advisor), Carolyn Morgan (Governance and Risk Advisor) and Jason Morel (Communications & Public Relations Manager)

17 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

18 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Shaun Stephenson-McGall and John Goddard.

19 DECLARATIONS OF INTEREST

William Liew declared a non-pecuniary interest as the representative of an employer in the Fund in relation to agenda item 10 (approval of FSS).

20 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair welcomed Councillor John Cato, John Finch and Mike Rumph to their first meeting of the Committee.

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

There were none.

22 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

23 MINUTES: 21ST JUNE 2019

The public and exempt minutes of 21st June 2019 were approved as a correct record and signed by the Chair.

24 MINUTES OF THE PENSION BOARD 13TH JUNE 2019 AND PENSION BOARD ANNUAL REPORT

The Pensions Manager presented the report.

The Head of Business, Finance and Pensions advised the Committee that the current Chair of the Pension Board, Howard Pearce, would step down in October. His successor, Nick Weaver, would take up the position in November.

RESOLVED to note the report and appendices.

25 UPDATE ON LEGISLATION

The Technical and Compliance Advisor presented the report.

A Member referred to the information in appendix 1, page 57 about the SAB project on Tier 3 employers, and asked if there was any update. The Technical and Compliance Advisor replied that there were no further updates on this project at this time.

RESOLVED to note:

1. the current position regarding the developments that could affect the administration of the Fund;
2. the responses sent to the MHCLG consultation on the 'Local Valuation Cycle and the Management of Employer Risk' and the HM Treasury consultation on 'Restricting Exit Payments in the Public Sector'.

26 APPROVAL OF FSS (POST CONSULTATION) - TO FOLLOW

The Investment Manager presented the report. She drew attention to the comments from the Pension Board in Appendix 3.

The Fund's Actuary, Paul Middleman, drew attention to the three objectives that the Funding Strategy Statement had to meet, as set out in paragraph 1.3 of the covering report:

- a) ensure that the benefits paid out in future will be reasonably met;
- b) that the amount paid in annually covers the cost of the pension benefit accrued;
- c) that current pension debt is not deferred for future generations to fund.

He also drew attention to the outstanding regulatory/legal matters that will need to be included in the FSS (paragraph 4.4), which if not resolved before 31 March 2020 would have to be managed within the FSS, and to his responses to comments received during the consultation (paragraph 5.3).

Responding to a question from a Member, Mr Middleman said that the FSS was not an appropriate document in which to discuss in detail climate change or responsible investment. The purpose of the FSS was to plan future funding with an appropriate level of prudence in the light of known risks. Climate change was one of the risks that might affect the level of returns, and expectations about future real returns were factored into the FSS.

A Member asked whether there was any advice from Government on what was reasonable for a deficit recovery period (DRP) for an employer. Mr Middleman said there was not. The DRP was one of the factors taken into account in developing the Funding Strategy, and so had to be seen as reasonable in that context. The funding plan has to ensure that the debt is not transferred to future taxpayers, but equally that not too much of a burden is put on current taxpayers. The Head of Business, Finance and Pensions said that the Pensions Regulator had recently issued a report on a number of funds and one of the concerns expressed was the lack of covenant assessments by some funds. Avon does a great deal of work on this, which facilitates the calculation of contributions and DRPs to maintain the balance between affordability and sustainability. He expected that the Pensions Regulator would issue guidance to encourage funds to do more in this area.

A Member asked about the potential impact of the McCloud decision on employers and on the administrative costs of the Fund. Mr Middleman said that a reasonable cost estimate would be calculated and each employer test the impact on them on the basis of that cost. There might then be scope for tapering contributions for individual employers. He agreed that there could be a significant impact on the administrative costs of the Fund, if there were complicated arrangements for backdated pension payments.

RESOLVED:

1. to note the feedback responses received, and the proposed amendments to the FSS;
2. to approve the FSS as set out in Appendix 1, subject to the insertion of information which can only be included when the actuarial valuation is complete;
3. to delegate the refinement and finalisation of the draft FSS to Fund Officers with the assistance of the Fund Actuary.

27 UPDATE ON BRUNEL PENSION PARTNERSHIP

The Investment Manager presented the report.

She said that transition remained on track. The creation of the Emerging Markets Equity portfolio was nearing transition. The Global High Alpha and DGF portfolios were making good progress. The Smaller Companies' equity portfolio and the Global Sustainable Equities portfolio had been launched. Brunel and the Client Group were still developing their monitoring reports; a Brunel Quarterly Investment Report was included with the papers for the meeting of the Investment Panel on 2 September. Members of the Committee and of the Pension Board have been sent invitations to the Brunel client engagement days, which would be held on 12th, 13th and 19th November. These would provide useful background for the Committee's Investment Strategy workshop on 17th December.

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 consideration of exempt appendices 2, 3 and 5 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 returning to open session the Committee **RESOLVED** to note:

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

28 ANNUAL RESPONSIBLE INVESTING REPORT

The Assistant Investments Manager presented the report.

RESOLVED:

1. to approve the annual Responsible Investment Report for 2018/19;
2. to agree the RI priorities for 2019/20.

29 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report.

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

30 ANNUAL REVIEW OF RISK MANAGEMENT STRATEGIES

The Investment Manager presented the report. Members noted that the Panel had recommended at its meeting of 2 September that the current trigger framework should be maintained. However, on 4 September the Treasury announced that RPI would be phased out as a measure of inflation by 2030 and be replaced by CPI, so the recommendations in 2.1 were that the Panel should reconsider the LDI trigger framework at its next meeting and that in the meantime Officers should take appropriate action to protect the Fund's position.

Before discussing the Mercer Annual Risk Management Framework Overview 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 consideration of Exempt Appendix 1, 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 returned to open session and **RESOLVED**:

1. to agree the following delegations given the Government's announcement regarding RPI:
 - i. that the Panel reconsider the LDI trigger framework at the next Investment Panel meeting;
 - ii. if market conditions dictate, that Officers take appropriate action to protect the Fund's position in the meantime.
2. to agree the Panel's recommendation, subject to full consideration at the November Strategy Review workshop, to put in place another static EPS for 12-18 months when the current strategy rolls off.
3. to delegate implementation of a new static hedge to Officers and the Investment Panel.
4. to delegate the decision whether to use dynamic hedging in the equity protection strategy to the Investment Panel
5. to note Mercer's report reviewing the strategies and collateral position.

31 REVIEW OF INVESTMENT PERFORMANCE

The Assistant Investments Manager presented the report.

Mr Turner presented the Mercer Investment Report.

After discussion the Committee **RESOLVED**:

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

32 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS AND RISK

REGISTER

The Pensions Manager presented the report.

RESOLVED to note:

1. membership data, Fund and Employer performance for the 3 months to 30th June 2019;
2. progress and reviews of the TPR Data Improvement Plan.

33 WORKPLANS

The Governance and Risk Advisor presented the report.

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

34 DATES OF FUTURE MEETINGS

It was noted that the next meeting of the Committee was scheduled for 6 December 2019.

The meeting ended at 3.45 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services