BATH AND NORTH EAST SOMERSET COUNCIL

AVON PENSION FUND COMMITTEE

DRAFT MINUTES OF THE MEETING OF 25TH JUNE 2010

Present:-

Voting Members: Cllr Gordon Wood (Chair), Cllr Tim Ball, Cllr Gabriel Batt, Cllr David Bellotti, Ann Berresford Cllr Mary Blatchford, Cllr Vic Clarke, Cllr Tim Kent, Steve Paines

Non-voting Members: Rowena Hayward, Richard Orton, Paul Shiner

Also in attendance: Andrew Pate (Director of Resources and Support Services), Tony Bartlett (Head of Business, Finance and Pensions), Liz Feinstein (Investments Manager), Matt Betts (Assistant Investments Manager), Steve McMillan (Pensions Manager), Martin Phillips (Finance & Systems Manager (Pensions)), Tony Earnshaw (Independent Adviser), Chris Hackett (Audit Commission)

1 EMERGENCY EVACUATION PROCEDURE

The Clerk read out the procedure.

2 ELECTION OF VICE-CHAIR

Cllr Bellotti was elected Vice-Chair for the Municipal Year 2010-2011

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Carolan Dobson, Cllr Mike Drew, Cllr Keith Kirwan, Bill Marshall.

Apologies were also received from Dave Lyons (JLT Benefit Solutions)

4 DECLARATIONS OF INTEREST

There were none.

5 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair welcomed Cllr Tim Kent to his first meeting.

He announced that the unions had informed him that Steve Paines would be the union-nominated voting member for 2010-2011.

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: 26 MARCH 2010

These were approved as a correct record and signed by the Chair.

9 DRAFT STATEMENT OF ACCOUNTS FOR THE AVON PENSION FUND 2009/10

The Finance & Systems Manager (Pensions) presented the report. He tabled an amendment to note 6 on page 8 of the Statement of Accounts. He said that the Statement of Accounts would be presented to the Corporate Audit Committee on 29 June 2010.

A Member noted that the information on page 4 of the accounts indicated a large increase in investment management expenses; the percentage increase in these was greater than the percentage increase in investment income. The Investments Manager explained that a large proportion of these expenses was based on the market-value of the assets managed and that as equity markets had witnessed large rises over the year, higher expenses were expected. Also, as the Fund has significant holdings in pooled funds, the majority of income from investments is retained and reinvested by the various funds, and not itemised as income in the accounts. Therefore page 10 of the Accounts understates the income earned by the Fund. Another Member suggested that it would be helpful to have the investment management expenses split into the market-related and performance-related components. A Member noted that there was an apparent discrepancy between the figure for £1,712,000 stated for lump sum retirement benefits in the Accounts and the figure of £1,502,000 given in the note. The Finance & Systems Manager (Pensions) replied that apparent variance arose from the requirements of recommended accounting practice. The Director of Resources and Support Services said that the note would be expanded and clarified so that the figure given in the note did not appear to be a mistake.

A Member noted the statement in the Audit Commission's audit fee letter that the indicative fee for 2010/11 would be 8.5% above the scale because working papers supporting figures in the accounts were below minimum standards, the 2008/09 accounts contained many presentational errors, and there were weaknesses relating to the control of journals. The Head of Business, Finance and Pensions responded that the Audit Commission had pointed out a number of areas where the Accounts fell below best practice last year. This year the working papers have been prepared in line with best practice following advice from the Auditor. Mr Hackett said that the audit fee would be kept under review and would be reduced if there was significant improvement in these areas.

RESOLVED

1. To note the Draft Statement of Accounts for the year to 31 March 2010.

2. To note the Audit Fee Letter for 2010/2011 and revision to 2009/10.

10 ROLES AND RESPONSIBILITIES OF MEMBERS, ADVISORS AND OFFICERS

The Investments Manager presented the report.

A Member commented on the number of advisers attending meetings of the Investment Panel. There had, on occasion, been 4 Members and 7 advisers at meetings. He was not suggesting this should change immediately, but he thought it should be kept under review. Another Member thought that the number of advisors was reasonable in the light of the Panel's main objective, which was to look at issues in detail and to make informed recommendations to the main committee. The Director of Resources and Support Services said that in his view the Panel was engaging with real issues and adding value to the work of the Committee.

Members noted the rules about substitution in the Panel’s Terms of Reference. They agreed that it was beneficial at this stage to have continuity in the membership of the Investment Panel.

RESOLVED

1. To note the roles and responsibilities of the members, advisors and officers.
2. To re-appoint Cllr Wood, Cllr Batt, Cllr Bellotti, Cllr Blatchford, and Ann Berresford as members of the Investment Panel for the year 2010-11, to get confirmation from Bill Marshall that he is willing to be re-appointed and to report back at a future meeting regarding substitutions.

11 PENSION FUND ADMINISTRATION – BUDGET MONITORING 2009/10, PERFORMANCE INDICATORS FOR QUARTER ENDING 31 MARCH 2010 AND RISK REGISTER ACTION PLAN

The Finance & Systems Manager (Pensions) summarised the accounts. The bottom line was that there had been variance for the year of £996,000 over budget, mainly due to an increase in investment management and custody fees. Excluding these there was an underspend of £324,000. Salaries had been underspent because of unfilled vacancies.

The Pensions Manager introduced the performance indicators for the two months to April 2010. He drew attention to the addition of a trend line to the graphs dealing with “completed and created”, “new case created and completed” and “outstanding cases”, which he thought would help put the monthly figures into context. He described past two months as being ones of “business as usual”. The team was keeping pace with work as it came in, despite major peaks and troughs. The backlog of transfers had been cleared following the receipt of the delayed advice from the Government Actuary’s Department, and clearance of transfers was above the target of 75%. The data cleansing exercise had identified leavers not notified by employers, resulting in a higher than normal number of cases needing to be processed. Sickness absence had been well below target. No complaints had been received.

A Member asked whether Bath and North East Somerset had improved in the provision of information about employees to the Fund. The Pensions Manager replied that they had, and had provided additional staff to the Benefits Team to help them bring records up to date.

A Member asked what the difference was between Appendix 4a and Appendix 4b, which were both headed “Responses to Retirement Questionnaire”, but gave different figures. The Pensions Manager replied that some questions in the questionnaires had options and that there was a need to relate the responses to the individual options. The presentation of this information was under review with the aim of getting it all onto a single sheet. The Member said that in his view all retirees should receive their lump sum and pension within one month of retirement. The Pensions Manager replied that this would be possible if employers were prompt at supplying information to the Benefits Team. The Member suggested that pressure needed to be maintained on Bath and North East Somerset to improve its performance in this area.

A Member asked how it was possible for graph 5 in Appendix 3b to show a figure in excess of 100% for cases completed and created. The Pensions Manager replied that the straight line showed the trend, whereas the wavy line showed the number of cases dealt with. If more cases were dealt with than received, the wavy line would go above 100%. This happened when the backlog of transfers was being cleared.

A Member noted the trend line on graph 7 of Appendix 3b was moving upwards and asked whether there was any relation between this and the underspend on staff salaries. The Pensions Manager replied that the target was to clear 90% of new cases in the month received and performance was on target. Outstanding cases were going up because new cases were going up. There had also been additional work for the actuarial valuation of the Fund and for the testing of new upgrade software. The Member asked whether the vacant posts would be filled or deleted. The Head of Business, Finance and Pensions said that in the 2010/11 Service Plan there was a reduction in the overall number of posts, but no reductions in posts in the Benefits Team. The number of cases had increased over the past 5-6 years in line with the increase in the number of employers in the Fund. There were now 106 employers in the Fund, an increase of over 30 in the last three years. Benchmark comparisons with other local authority funds showed that the Fund was reasonably efficient compared with the average.

RESOLVED

1. To note the expenditure for administration and management expenses incurred for the year ending 31st March 2010.
2. To note the performance indicators for 2 months to 30th April 2010.

12 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER AND YEAR ENDING 31 MARCH 2010

The Assistant Investments Manager presented the report and drew attention to the headline figures. Asset values had increased by £152m, or 6.1%, in the quarter. During the year the Fund had outperformed the strategic benchmark, but underperformed the customised benchmark because of underperformance by Jupiter. The Fund had underperformed the average of the WM Local Authority Fund universe because of its slight underweight in equities and overweight in bonds and its overweight position in hedge funds relative to the average fund. The value of the Fund was £2.36bn at the end of May. The funding level now covered 73% of liabilities. He said that the meetings with investment managers had not raised any concerns about individual managers, but had thrown up a number of generic issues, such as the split between active and passive mandates. He said that next quarter the report from JLT would include a qualitative report on each of the property managers.

He tabled a briefing note on BP regarding the oil spill in the Gulf of Mexico. A Member raised two concerns in relation to this. He thought the proportion of the Fund (52%) invested through BlackRock was possibly too high in terms of operational risks with one manager. He requested officers to bring a paper about this to a future meeting. He noted that as BlackRock mirror the index they had a significant holding in BP (c. £18m), so that if the proportion of Fund invested through BlackRock had been capped at 30%, there would have been less exposure to BP. Secondly, he was surprised that although TT had come across at the recent Investment Panel workshop as a manager who were really concerned about risk, in May they had increased their holdings in BP; this might indicate that they had not assessed the implications of the environmental crisis correctly. He suggested that they should be asked for a written statement setting out the rationale for their action. A Member said that it was easy to be wise after the event; all equities involved risk and the Committee should not be selective in its concern, but it was quite in order to ask them to give their reasons for particular decisions. The Independent Adviser suggested that it might be better for them to present to the Committee so that they could respond to supplementary questions. He said that some investors would consider that the fall in the share price was an opportunity and that this was a value judgement and did not necessarily mean TT were taking a more risky approach than their mandate intended. The Chair noted that US investors owned 44% of BP and that it was not in their interests to allow BP to fail. The Investments Manager said that she would request a statement from TT and invite them to attend a meeting of the Investment Panel. The Director of Resources and Support Services noted that the holdings in BP formed only a very small proportion of the assets of the Fund. A Member responded that it was a higher proportion before the current crisis, and pointed out that all oil stocks had been affected by the fall out from the Gulf of Mexico and needed to be kept under review. Another Member referred to the decision of the Committee in March to reject the proposal to amend Jupiter's mandate to allow them to invest in the UK extractives sector. He said that many extractive industries caused environmental damage, but poorer countries need the investment and few governments were able to apply the degree of pressure on the companies that the US had applied to BP. The Investments Manager said that the review of the Fund's SRI policy would give more opportunity to discuss these issues in greater depth.

RESOLVED to note the Fund's return on investments and details of manager performance as set out in the report.

13 INVESTMENT PANEL MINUTES

RESOLVED to note the draft minutes of the meeting of the Investment Panel of 27 May 2010.

14 RECOMMENDATIONS FROM INVESTMENT PANEL

A Member queried the cost of the intended active currency hedging mandate versus the returns it was estimated to produce. The Investments Manager explained that it was impossible to forecast returns accurately because the mandate would make returns when currency markets were against sterling, but when currency markets were in sterling's favour and no hedge was required the Fund would incur base management fees. It was noted that during times when the currency markets were in sterling's favour, the fund's assets would benefit from the additional currency return, offsetting any fees during that period.

After discussion, it was **RESOLVED**

1.1 To appoint a specialist manager to implement an active currency hedging mandate over all US Dollar, Euro and Yen denominated equity assets (excluding those in emerging markets).

1.2 That the manager to be appointed adopts a non-discretionary quantitative approach to active currency hedging.

1.3 To delegate the appointment process to Officers in consultation with the Chair of the Committee and Members of the Investment Panel.

2.1 To agree the proposed tender process for the global equity manager as set out in paragraphs 6.1-6.3 of the report.

2.2 To delegate the appointment of the global equity manager to the Investment Panel (the selection panel meeting will be open to other members of the Committee).

3. To agree the framework for the review of the hedge fund portfolio as set out in paragraph 7.1 of the report.

15 ANNUAL REPORT OF THE COMMITTEE TO COUNCIL

The Investments Manager presented the report. She said that the Annual Report would be presented to Council at its September meeting and for the first time copies would be sent to all the employers in the Fund. She invited Members to suggest additions or amendments to the Annual Report.

A Member suggested that the statement about the Members nominated to the Committee by the Trade Unions needed to make clear that there were three different unions involved.

A Member suggested that it should be explained that the improved performance of the Fund over the past three years was due to the diversification strategy the Fund had adopted.

RESOLVED to approve the Annual Report of the Committee to Council, subject to the recommended changes.

16 COMMUNITY ADMISSION BODIES

The Head of Business, Finance and Pensions presented the report. He said that it had been prepared in response to a request from a Member at the previous meeting. The key issue was that certain bodies were not guaranteed or underwritten. The exempt appendix to the report listed these bodies and gave details of their current deficit within the Fund. Officers were striving to protect the position of the Fund and were in active dialogue with these bodies. The steps being taken were acknowledged by the Committee

The Director of Resources and Support Services advised that if Members wished to discuss the details of any of the bodies listed in the report they should consider the Public Interest Test and resolve to go into exempt session.

A Member predicted that the Government's austerity measures would result in the winding up of many organisations dependent on grants from the public sector, and suggested that the Committee should have a general strategy to address this. He did not wish to see the Fund spending large sums of money on legal fees to fight individual cases. A Member noted that it was Government policy that more public services should be provided by voluntary bodies and co-operatives. The Chair recalled that the Committee had set up a working party to consider the case of a community body that had become insolvent. A Member suggested a new working group should be kept informed and consulted before officers took action in relation to any of the community bodies.

A Member said that the original working party had received in-house legal advice that the Fund was obliged to pursue every outstanding liability through the courts.

However, the working party had responded that community bodies varied widely and that the circumstances of any insolvency needed to be addressed on a case by case basis They discussed the policy and whether the decision to pursue or not should be taken by the Committee or Council's Section 151 Officer having done a cost benefit analysis. A progress report will be brought to the next committee meeting. The Head of Business, Finance and Pensions reported that the Department of Communities and Local Government had recently issued a consultation paper to LGPS funds on the issue of admitted bodies.

The Investments Manager said that this was a legacy issue, because bodies now had to give a guarantee or a bond before they were admitted to the Fund. The employer relationship team was spending a lot of time talking to the bodies listed in the appendix and advising them on how to manage their cash flow.

RESOLVED to note the information set out in the report and to receive a further report at the next meeting of the Committee.

17 WORKPLANS

RESOLVED to note the workplans.

The meeting finished at 4.10pm.

Chair…………………………….

Date confirmed and signed…………………………