

Minutes of the Meeting held

Friday, 22nd June, 2012, 2.00 pm

Bath and North East Somerset Councillors: Paul Fox (Chair), Gabriel Batt, Nicholas Coombes, Charles Gerrish and Katie Hall

Co-opted Voting Members: Councillor Mary Blatchford (North Somerset Council), Bill Marshall (HFE Employers), Ann Berresford (Independent Member) and Carolan Dobson (Independent Member), Richard Orton (Trade Unions)

Co-opted Non-voting Members: Clive Fricker (Town and Parish Councils), Steve Paines (Trade Unions) and Paul Shiner (Trade Unions)

Advisors: John Finch (JLT Benefit Solutions) and Tony Earnshaw (Independent Advisor)

Also in attendance: Andrew Pate (Strategic Director, Resources), Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matthew Betts (Assistant Investments Manager), Steve McMillan (Pensions Manager) and Martin Phillips (Finance & Systems Manager (Pensions))

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Mike Drew, Rowena Hayward and Dr Mark Wright.

3 DECLARATIONS OF INTEREST

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair announced that there would one additional item: an application for Bristol Disability Equality Forum to be admitted to the Fund as a Community Admission Body.

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

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 16TH MARCH 2012

The public and exempt minutes of the meeting of 16th March 2012 were confirmed as a correct record and signed by the Chair.

8 APPLICATION FOR BRISTOL DISABILITY EQUALITY FORUM TO BE ADMITTED TO THE AVON PENSION FUND AS A COMMUNITY ADMISSION BODY

The Investments Manager explained that since the publication of the agenda an application for admission to the Fund had been made by Bristol City Council on behalf of Bristol Disability Equality Forum, which was a registered unincorporated charity established to take over the provision of services from Bristol City Council. The admission agreement would be “closed”, so that employees engaged after the transfer would not become members of the Fund. Bristol City Council had agreed to guarantee any pension liabilities not funded by Bristol Disability Equality Forum. This would obviate the need to have recourse to individual trustees in the event of default.

RESOLVED to admit Bristol Disability Equality Forum to the Avon Pension Fund as a Community Admission Body with Bristol City Council acting as the guarantor, subject to completion of the Admission Agreement.

9 ROLES AND RESPONSIBILITIES OF THE COMMITTEE - ANNUAL REMINDER AND CONFIRMATION OF INVESTMENT PANEL MEMBERS

RESOLVED

- i. To note the roles and responsibilities of Members, advisors and officers;
- ii. To note the Terms of Reference of the Committee and the Investment Panel;
- iii. To note the Governance Compliance Statement;
- iv. To agree the non-B&NES Members to be on the Investment Panel.

10 CONSULTATION ON SCHEME CHANGES

The Technical and Development Manager updated Members, referring to the briefing paper circulated with the agenda

The Local Government Association and the Unions had launched an informal consultation with their members. The Department of Communities and Local Government were expected to begin a statutory consultation in Autumn 2012.

11 CASH MANAGEMENT POLICY

The Investments Manager presented the report.

She agreed with a Member that it was too early to assess the impact on cash flow of the forthcoming scheme changes. The Head of Business, Finance and Pensions said there were two aspects of the revised scheme that could have implications for cash flow: auto-enrolment and the 50/50 arrangements, which might prove attractive to additional members. However, there was insufficient data available at present to allow these to be modelled.

A Member said that he was assured that what was proposed was reasonable in the short term, but that actuarial projections following the scheme changes would need to be carefully evaluated for their implications for cash flow in the longer term. The Investments Manager agreed.

A Member said a significant watershed had been reached, when contributions no longer generated sufficient income. At a time when fixed interest payments and gilt yields were low, it would be right to utilise dividend income where possible. The Investments Manager agreed, and said that this would be included in the strategic review.

A Member requested that the Committee should be kept informed of the cash flow position. The Investments Manager replied that it would be included in the quarterly investment report to Committee.

A Member asked whether reductions in staff numbers had an impact on cash flow. The Investments Manager replied that there was a direct link to reductions in staff numbers and to the pay freeze imposed for the past three years. The Head of Business, Finance and Pensions the impacts could be projected through the cash flow model, which was being continually refined.

RESOLVED

- i. to note the forecast change in the Fund's cash profile and the monitoring procedures, including reporting activity to the Committee;
- ii. to approve the proposed policy for cash management as set out in section 6;
- iii. to delegate responsibility to the Head of Business, Finance and Pensions to implement the policy in line with paragraph 6.2.

12 RESPONSIBLE INVESTMENT POLICY

The Investments Manager presented the report. She said that the challenge was to integrate responsible investment with the Fund's strategic investment strategy.

The Chair said that this policy represented a big step forward for the Committee, because hitherto Socially Responsible Investment had been pursued through a small

dedicated portfolio, but in future it would be applied across all the Fund's investments.

Members applied the public interest test to appendices 1, 2 and 3 of the report and passed the following resolution:

Having been satisfied that the public interest would be better served by not disclosing relevant information, the Committee **RESOLVES**, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972 ("the Act"), that the public be excluded from the meeting during the discussion of appendices 1-3 of the report for this item because of the likely disclosure of exempt information as defined in paragraphs 3 and 5 of Part 1 of Schedule 12A of the Act as amended.

After returning to open session, the Committee discussed appendix 4 of the report. A Member said that he was disappointed by the draft policy, which seemed simply to be a statement of what the Fund was doing now and not what it intended to do. He did not see that this took the Fund forward. The Head of Business, Finance and Pensions responded that the RI policy is a framework for strategic decision-making in the future to ensure RI risks are addressed within its overall duty to maximise financial returns. The Chair said that the draft policy was written in the present tense, but this did not mean that everything in it was already being done; it was his view that the use of the present tense had a more powerful impact than a statement of future intentions would.

A Member said that the policy was not as strong as he would like. He referred to the first paragraph of the first bullet point at the top of agenda page 110, which stated that the Fund "includes in tenders an assessment of managers' processes for evaluating responsible investment risks within their investment processes" and said that he considered that it should state that responsible investment was a criterion for the appointment of a manager. He would prefer to state that the Fund would "give priority to those with greater Socially Responsible Investment capacity." Another Member said that this would encourage investment managers to put pressure on companies to be more socially responsible. However another Member was concerned about the legality of making SRI the main selection criterion. The Strategic Director – Resources agreed; SRI should be a factor to be taken into account when appropriate, but not the main selection criterion. After discussion Members agreed that the following should be added to the end of the first paragraph of the first bullet point on page 110:

"and make use of this as an integral part of the selection process when relevant."

It was **RESOLVED** by 6 votes to 3

- i. To adopt the proposed Responsible Investment Policy included in Appendix 4;
- ii. To agree the implementation process included in Exempt Appendix 1.

The Assistant Investments Manager presented the report.

RESOLVED

- i. to note the scope of the Strategic Review;
- ii. to note the provisional timetable for the Review.

14 INVESTMENT PANEL MINUTES AND RECOMMENDATIONS FROM INVESTMENT PANEL

The Assistant Investments Manager presented the report. The Panel had recommended to the Committee a new policy for rebalancing between equities and bonds.

RESOLVED

- i. to note the draft minutes of the Investment Panel meeting held on 17 May 2012;
- ii. to approve the revised Rebalancing Policy set out in Appendix 4, which incorporates the recommendations from the Investment Panel.

15 ANNUAL REPORT TO COUNCIL

The Investments Manager presented the report. She reminded Members that the Fund submitted an Annual Report to B&NES Council as the administering authority for the Fund.

A Member noted that because of the publication schedule the report was already three months out of date. The Chair agreed and noted that it was not uncommon for organisations to include matters in their annual reports significant matters that had occurred after the end of the reporting year.

A Member asked when the Fund's bank account had been separated from that of B&NES Council. The Investments Manager replied that this had been done in 2009/10. The Chair suggested this should be clarified in this Annual Report.

RESOLVED

- i. to approve the Annual Report to Council, subject to the comments made by Members.

16 DRAFT ACCOUNTS 2011/2012

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

A Member noted that the derivatives analysis on agenda page 176 was an entirely new section of the Accounts, and suggested that it might be worth drawing attention to the fact.

A Member noted the sum indicated as invested in Lyster Watson on page 177, and asked whether this was just the residue of the Fund's previous investment in this manager. The Investments Manager confirmed that this was the case.

A Member asked whether the risk arising from the Fund's tactical position in corporate bonds versus gilts should be mentioned as a specific risk on page 182. The Investments Manager replied that she did not think that this had materially changed the level of risk.

A Member asked whether the residual balance in respect of Lyster Watson was due to a tax reclaim. The Investments Manager replied that it was not a tax reclaim, but a sum pending the final settlement of the termination proceeds.

RESOLVED to note the Draft Statement of Accounts for the year to 31 March 2012 for audit.

17 REVIEW OF INVESTMENT PERFORMANCE FOR YEAR ENDING 31 MARCH 2012

The Assistant Investments Manager presented the report and highlighted the key figures. The funding level had improved from 66% to 70% over the quarter. A meeting had taken place with Man, who had given some reassurance after announcing changes to the way in which the portfolio was managed.

The Finance & Systems Manager (Pensions) informed Members that because of recent credit downgradings, the Fund could no longer invest cash with the NatWest call accounts, though they were still used for day-to-day current accounts. Barclays and RBS were still useable even after the downgrades.

The Strategic Director – Resources suggested that it would be useful to circulate a note to Members setting out current credit ratings.

Mr Finch commented on the JLT report. He said that the UK gilt yield was now 2.87%. The UK's retention of its AAA credit rating had had a dramatic impact on gilt yields and on pension funds, because fund valuations were linked to gilt yields. There was only a limited amount that could be done through investment policy to counteract low gilt yields. He was concerned that if gilt yields remained low there could be a significant impact on the next Fund valuation. A Member asked whether it would be possible to discount gilt effects in the valuation. The Investments Manager replied that this would be discussed with the actuary, but the actuary had a duty to act prudently. The Vice-Chair said that the issue was the calculation of the Fund's liabilities, not a decline in the value of its investments. He thought this should be explained to Fund members, so that they were not unduly alarmed. The Strategic Director – Resources agreed that this was an important, but it was difficult to explain the discounting of future liabilities in simple terms.

As far as the Eurozone was concerned, Mr Finch thought that the Greek general election had merely “kicked the can down the road”, and another factor creating uncertainty was the election pending in Germany.

Mr Finch drew attention to the information on aggregate manager performance given in the JLT performance report on pages 216 and 217 of the agenda.

RESOLVED to note the information set out in the report.

18 PENSION FUND ADMINISTRATION - BUDGET MONITORING FOR YEAR TO 31 MARCH 2012 & PERFORMANCE INDICATORS FOR YEAR ENDING 2012 & STEWARDSHIP REPORT

The Finance & Systems Manager (Pensions) presented the financial report. The total variance for the year had been £85,000 under budget. The Committee was asked to approve an addition to the list of discretions in respect of “payments for persons incapable of managing their affairs”, as set out in paragraph 10.2 of the covering report.

The Pensions Manager presented the performance report. Graph 2 on page 267 showed the growth in hits on the Fund’s website, perhaps reflecting the high media profile of public sector pensions. As reported in section 7 of the report, there had been a fall in the number of opt-outs, which may have been helped by the introduction of the 50/50 option. The APF had been included in a shortlist of 4 organisations nominated for the national Best Pensions Administration Award, sponsored by Financial News. APF was the only LGPS fund on the shortlist and had been second runner-up. Members congratulated the Pensions Administration team on this achievement.

The Committee applied the public interest test to the information contained in Appendix 7 to the report and passed the following resolution with one Member voting against:

Having been satisfied that the public interest would be better served by not disclosing relevant information, the Committee **RESOLVES**, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972 (“the Act”), that the public be excluded from the meeting during the discussion of Appendix 7 of the report for this item because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

Following discussion of Appendix 7t, the Committee returned to open session.

RESOLVED

1. To approve the addition to the list of Fund Discretions in respect of “*Payments for persons incapable of managing their affairs*”.
2. To note the expenditure for administration the Stewardship Report on performance and management expenses incurred for the 12 months and

19 WORKPLANS

The Investments Manager drew attention to the addition to the Committee workplan of workshops and a special Committee meeting for the review of Strategic Investment Review.

RESOLVED to note the workplans.

The meeting ended at 4.02 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services