

Minutes of the Meeting held

Friday, 21st September, 2012, 2.00 pm

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

Co-opted Voting Members: Councillor Mary Blatchford (North Somerset Council), Councillor Mike Drew (South Gloucestershire Council), Councillor Mark Wright (Bristol City Council), Bill Marshall (HFE Employers), Ann Berresford (Independent Member) and Richard Orton (Trade Unions)

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

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

Also in attendance: Tim Richens (Divisional Director, Finance), 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))

20 EMERGENCY EVACUATION PROCEDURE

The Chair drew attention to the emergency evacuation procedure.

21 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies had been received from Cllr Gabriel Batt and from Carolan Dobson. Cllr Katie Hall had apologised that she would arrive late.

22 DECLARATIONS OF INTEREST

There were none

23 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was no urgent business.

24 MINUTES OF THE MEETING ON 22ND JUNE 2012

The public and exempt minutes of the meeting of 22nd June 2012 were confirmed as correct, with one amendment: that Dr Mark Wright be amended to Cllr Mark Wright.

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

There were none.

26 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

27 2011/12 AUDITED STATEMENT OF ACCOUNTS, THE ANNUAL GOVERNANCE REPORT AND DRAFT ANNUAL REPORT & ACCOUNTS

The Divisional Director (Finance) introduced the report.

The Finance and Systems Manager (Pensions) provided some explanations and also said that three amendments were needed to the figures on page 42 showing the analysis for year ending 31st March 2011: In the AAA column, the Overseas Government Bonds figure should read 39,886; the Corporate Bonds should read 16,228; and the total should therefore read 403,233.

Chris Hackett (Audit Commission) explained that he had not yet issued the audit opinion report which was included as appendix 2 to the report. He said that his report would confirm an unqualified audit opinion. He explained that there would be some new responsibilities to disclose the accrued pension rights of key officers but that a single figure to cover all would avoid divulging personal information. He referred to Note 21, on page 41 of his report, and said that the key relationship had been disclosed and the amount was not material. Finally, he confirmed that there had been no adjustment to the audit figure.

A member asked who would sign the management letter, and it was confirmed that this would be the Bath & NE Somerset Council Section 151 Officer.

A member observed that in the Key Risk Table on page 78 of the pack, the reference to the risk of failure to achieve investment returns should mention the existence of the Investment Panel. The Investments Manger acknowledged this but said that the responsibility ultimately fell to this Committee.

After other clarifications, it was **RESOLVED** (unanimously)

- (1) To APPROVE the final audited Statement of Accounts for 2011/12;
- (2) To NOTE the issues raised in the Annual Governance Report;
- (3) To APPROVE the draft Avon Pension Fund Annual Report 2011/12; and
- (4) To NOTE the arrangements for distribution of the 2011/12 Annual Report & Accounts.

28 ANNUAL REVIEW OF VOTING ACTIVITY

The Investment Manager explained that this was the first annual report and said that the recommendations proposed areas for future focus.

The Chair welcomed Paul Hewitt (Manifest) who gave a presentation [*a copy of which is attached to the minutes as Appendix 1 and on the Council's website*] in

which he analysed voting patterns of different investment managers at shareholder meetings, particularly in the matter of Director elections, remuneration, annual reports and auditor appointments. He explained that voting was not the most subtle way to influence the behaviour of companies.

Members of the Committee thanked Paul Hewitt for his presentation and he answered a number of questions. In particular, he addressed the point made by more than one member that voting was a powerful way to influence behaviour, by reminding members that voting was only one option open to investors and that other means of engaging with Boards also could be very effective.

Tony Earnshaw (Independent Advisor) agreed with Paul Hewitt and said that the report was an attempt for the Committee to find ways of influencing behaviour without doing anything which would reduce the value of the funds held in trust for the members of the scheme.

A member felt that at least fund managers should be advised that their voting patterns were being monitored.

[Cllr Katie Hall arrived at this point]

The Head of Business (Finance and Pensions) warned of the dangers of rethinking the entire investment strategy.

A member observed that in his presentation Paul Hewitt had said that voting patterns were monitored against local regulatory regimes; and asked whether this meant that no attempts were made to improve 2nd and 3rd world markets.

Paul Hewitt responded that some governments and investors did intervene to encourage improvement.

The Chair thanked Paul Hewitt for his report.

The Committee **RESOLVED** (with two abstentions)

- (1) To NOTE the review of voting activity undertaken in 2011 on behalf of the fund;
- (2) To AGREE that based on this annual review, the issues the Fund will focus on with its managers in the 2013 voting season will be:
 - (i) remuneration policy and its link with strategic performance and
 - (ii) governance structures including the independence and diversity of the Board.

29 CONSULTATION ON SCHEME CHANGES (VERBAL UPDATE)

The Pensions Manager gave a verbal update on the consultation process on the Government's proposals to change the Scheme from 2014. He explained that the proposals had received wide acceptance from all unions except that the Fire Brigades Union had not been in favour. The next step would be that government would issue a formal document, based on the informal discussions, for a 3-month formal consultation.

Union representatives expressed their concern to maximise membership of the Scheme and to minimise opt-outs. Some expressed concern that the 50/50 provisions, while allowing low-paid employees to make a staged entry to the Scheme, might also allow existing members to reduce their contributions against

their own best interests. A union representative welcomed the better deal for some low-paid employees and the better accrual rate on offer.

The Pensions Manager advised the Committee that he would be arranging a series of Pensions Roadshows, probably from February 2013, to explain the proposals to employees.

The Committee **RESOLVED** (unanimously)

(1) To NOTE the Pensions Manager's verbal report.

[Cllr Katie Hall left the meeting at this point]

30 PENSION FUND RESTRUCTURE/MIDDLEWARE SOFTWARE PURCHASE (AUTO ENROLMENT)

The Pensions Manager introduced the report. He observed that one of the biggest challenges was updating members' details in a timely way because the Fund had a large number of employer organisations some of which did not notify changes to personal details, leavers, joiners etc until the end of the financial year. He asked the Committee to agree to an increase in the salary costs so that new staff could be employed to deal with the extra workload which resulted from the need to be prepared for the introduction of the new LGPS scheme in 2014. He also asked the Committee to agree to the purchase of new middleware software which would facilitate monthly updates of member details straight onto the pensions database.

A member asked whether, once the extra workload of implementing the new scheme had been completed, the intention was to manage down the establishment. The Pensions Manager stated that this would be achieved when appropriate, through natural wastage. He reminded the Committee however that there were now 170 employers in the scheme, and that benefits under the anticipated 2014 scheme would be calculated on a totally different basis from the previous schemes so extra work would be involved for some time to come.

The Committee **RESOLVED** (unanimously)

(1) To AGREE the proposed change in the structure of the Pension Benefits Department;

(2) To AUTHORISE:

(i) An increase in the annual staff salary costs as shown in Appendix 2A

(ii) Additional spend on other necessities to meet future challenges including new middleware software which will assist employers with their legal obligations under auto enrolment and provide monthly updating of member changes to the Fund's pension administration database as shown in Appendix 2B.

31 MINUTES AND RECOMMENDATIONS FROM THE INVESTMENT PANEL

Cllr Charles Gerrish introduced the draft minutes of the Panel, which had been attached to the agenda.

The Investment Manager explained that one member of the Panel had attended in an observer role only, since he had not at that point signed his declaration of interest form so was not entitled to participate.

The Committee **RESOLVED** (unanimously)

(1) To NOTE the draft minutes of the Investment Panel meeting held on 5th September 2012.

32 REVISED STATEMENT OF INVESTMENT PRINCIPLES

The Investment Manager introduced the report. She reminded members that it was a legal requirement to update the Investment Principles whenever there was any material policy change. The changes incorporated the responsible investment policy and the cash management policy.

A member asked for clarity about the distinction between cash management and treasury management, particularly in the light of the third paragraph on page 3 of the amended statement. Officers were asked to respond to this.

A member drew attention to the statement in paragraph 9 (Exercise of Voting Rights) on page 7 of the statement, in which it was made clear that the Fund would actively require its fund managers to vote their shares in line with the fund manager's own internal voting policy.

The Committee **RESOLVED** (unanimously)

(1) To APPROVE the revised Statement of Investment Principles.

33 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2012

The Chair moved that Appendix 3 to the report was exempt from publication. Members applied the public interest test to appendix 3 of the report and

RESOLVED (with one objection)

(1) Having been satisfied that the public interest would be better served by not disclosing relevant information, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, that the public be excluded from the meeting during the discussion of appendix 3 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.

[Having agreed not to refer to the exempt material, the Committee returned to open session]

The Committee **RESOLVED** (unanimously)

(2) To NOTE the information as set out in the report.

[Rowena Hayward, the GMB union representative left at this point]

34 PENSION FUND ADMINISTRATION: (1) EXPENDITURE AND (2) PERFORMANCE INDICATORS FOR 4 MONTHS TO 31 JULY 2012; (3) STEWARDSHIP REPORT FOR THE 4 QUARTERS TO 31 JULY 2012

The Chair moved that Appendix 7 to the report was exempt from publication. Members applied the public interest test to appendix 7 of the report and

RESOLVED (with 2 objections)

(1) Having been satisfied that the public interest would be better served by not disclosing relevant information, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, 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.

[The Committee then held a debate in closed session, the details of which are exempt from publication]

The Committee returned to open session.

A member referred to the graphs on page 315 of the pack and asked why, when the number of actives was reducing, the number of cases was increasing. An officer explained that this was partially due to late data arriving from the member employers.

The Committee discussed the need to impress upon member employers the importance of prompt data updates.

The Committee **RESOLVED** (unanimously)

(2) To NOTE the expenditure for administration, the Stewardship Report on performance and management expenses incurred for the 12 months and Performance Indicators and Customer Satisfaction Feedback for the 4 months to 31 July 2012.

35 WORKPLANS

The next meeting is scheduled for 2pm, 14th December 2012.

It was **RESOLVED** (unanimously)

(1) to NOTE the future workplan.

The meeting ended at 4.55 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

Avon Pension Fund Fund Manager Vote Monitoring

Paul Hewitt

Manifest Information Services Ltd

September 2012



Background: Manifest and Vote Monitoring

Governance Issues in 2011 Voting

Fund Managers and Voting

Q&A

Analysing corporate governance and meeting business for institutional investors since 1996

Specialise in custom voting policies, therefore well equipped to assess varying voting behaviours

Vote monitoring: 3 stages

1. Manifest governance and meeting analysis of meetings voted by Avon's fund managers
2. Post-meeting results obtained from the companies
3. Fund manager voting reports assessed in light of 1 and 2 above.

Why monitor voting?

Voting is an important part of the investment process: Use of ownership rights to manage governance risks in the portfolio

Monitoring voting helps Avon with:

- Understanding of best practice governance issues at investee companies
- Comparison of fund managers with each other, general shareholder voting behaviour and fund expectations

Vote monitoring is about understanding investment risk management, not enforcing compliance with a policy.

- Collection of data from company disclosures ahead of meetings on Manifest database into hundreds of data points.
- Manifest analysts add commentary to reports and qualitative judgement selections to database fields
- Resolutions then analysed using data and judgements with purpose built, customisable governance policy systems
- Result – a report detailing each resolution where the company falls short of the governance policy

- Resolution by resolution, Manifest adds the actual voting decisions reported by each fund manager
- Manager voting decisions then compared with the report highlighting governance shortfalls
- Exception analysis is then produced, resulting in quarterly reports and the Annual Voting Summary Report
- 2011 assessment is to be a benchmark for following years

“The system by which corporate direction and control operates”

Actors in the process:

- **Regulators**
 - Laws, Codes of Best Practice, Sanction
 - Government, Trade Associations, Market Regulatory Agencies
- **Boards**
 - Strategic direction and running of the company
 - Independent directors, committees, remuneration, audit, reporting
- **Stakeholders**
 - Consultation, autonomous actions
 - Employees, unions, customers, NGOs
- **Investors**
 - Exercise rights of control and oversight
 - Pension Funds, Insurance Companies, Sovereign Wealth Funds, Charities, Individuals

A single governance issue may trigger concerns with multiple resolutions at a meeting

- E.g. Director elections may be affected by the independence of the nomination committee or board diversity concerns

Therefore the voting template identifies concerns with a large number of resolutions in its analysis, but it's the underlying governance issues that are important

It is not expected that managers follow the voting template. The template identifies concerns that fund managers use their discretion to decide upon

Voting is tactical in the wider context of engagement and investment decisions

These are the substantial issues for investor focus; more important than over-emphasis on opposition to specific resolutions.

Director Elections

- Board gender balance, committee independence or size, nominee independence, length of NED tenure, committee responsibilities, severance arrangements (exec directors)

Remuneration

- Committee independence, sustainability issues in performance target setting, upper bonus cap, LTIP award sizes, LTIP award limits

Annual Reports

- Fees to auditor for non-audit work, board independence, board size

Auditors

- Committee independence, value of non-audit work compared to audit fee, auditor tenure

Overall average support for management – 96.1%

Fund Manager support for management (general support)

– BlackRock	1,560 resolutions	93.8% (94.8%)
– Jupiter	1,071 resolutions	97.5% (97.5%)
– TT International	953 resolutions	97.6% (96.7%)

BlackRock, Jupiter and TT International featured enough resolutions for some thematic analysis

- Identification of a concern does not necessarily mean a vote against: Voting is only a part of the wider investment process of maximising returns
- Governance concerns might be addressed through stock selection (i.e. in active strategies, managers may choose not to invest and therefore don't get to vote at more contentious companies)
- Other elements of ownership rights might be used to communicate concerns, such as meetings and correspondence
- Where sale is not an option (i.e. passive investment strategy), importance of use of voting rights increases as a means of investment risk mitigation
- Active investment may not mean active voting; passive investment may not mean passive voting

Voting activity is broadly in line with expectations from the investment mandate

BlackRock:

- A passive equity portfolio increases risk of low alignment with governance standards. The higher level of votes cast against management reflects this.

Jupiter

- High levels of alignment with governance standards to be expected in an active SRI mandate. Higher level of votes cast against than alignment suggests shows serious use of voting rights.

TT International

- Active manager with slightly higher than average governance alignment, combined with low level of votes cast against management suggests governance risk is part of selection process.

Director Appointments

- TT: Board size, tenure and non-independent nominees for committee with independence concerns
- BlackRock: Committee independence, nominee not considered independent by the company, tenure, board gender balance, severance payments or bonuses on exit (execs)

Remuneration Reports

- Jupiter: Maximum LTIP awards made, committee independence, unearned bonus on termination, upper bonus caps, recruitment/retention payments, lack of shareholding requirements
- TT: Maximum LTIP awards made, committee independence, unearned bonus on termination, upper bonus caps
- BlackRock: Absence of ESG linkage, upper bonus caps, value of LTIP awards made

Incentive Pay Plans

- Jupiter: Maximum potential award values
- TT: Maximum potential award values

- A sound point of comparison for future reports
- Director elections-related issues most wide-spread, because director elections are by far the most common resolution. Tenure and gender diversity are prominent considerations
- Remuneration is also noteworthy, especially relating to high levels of incentive pay and relatively low levels of voting dissent
- Sustainability considerations to become more important?
- Materiality of issues is more important than voting actions and outcomes
- Voting must be seen in the widest context of investment strategy

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