Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Friday, 15th November, 2013, 2.00 pm

Members: Councillor Charles Gerrish (Chair), Councillor Mary Blatchford and Councillor Ian Gilchrist, Ann Berresford
Advisors: Tony Earnshaw (Independent Advisor)
Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager) and Matthew Clapton (Investments Officer)

34 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

35 DECLARATIONS OF INTEREST

There were none.

36 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Gabriel Batt and Roger Broughton.

37 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There was none.

39 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

40 MINUTES: 4TH SEPTEMBER 2013

The public and exempt minutes of the meeting of 4th September 2013 were approved as a correct record and signed by the Chair.

41 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 SEPTEMBER 2013

The Assistant Investments Manager presented the report. He said that the Fund had increased by 2.6% over the quarter and had outperformed the strategic benchmark over the quarter and the year. Of the 5 managers rated as Amber in the RAG report (Exempt Appendix 3) 3 had continued to improve, while 2 had deteriorated. He drew attention to the update on the implementation of the investment strategy contained in section 4 of the report. Rebalancing had taken place in October, and overweight equity had been reduced and the proceeds reinvested in corporate bonds.

A Member questioned the statement in paragraph 3.8 at the bottom of agenda page 14 that the issue of the Fund being practically the only investor in the SSgA European fund “was last addressed by the Panel in November 2011”, whereas in fact it had appeared regularly on agendas. The Investments Manager replied that it was not a new issue, though it had been monitored constantly. The Chair agreed with the Member that the issue had been monitored by the Panel and that the Panel was satisfied with the situation.

Mr Finch and Mr Sheth commented on the JLT investment report. Mr Finch noted that MAN was struggling, vindicating the Committee’s decision to disinvest from them, even though JLT had advised at the time holding and watching them a little longer. He said that there were very few negatives over the quarter, apart from emerging markets. Overall managers were doing pretty much what the Fund wanted them to do. Mr Sheth commented on the performance of individual managers.

The Chair asked about the impact of the fall in the dollar. Mr Sheth said that it made some countries’ exports less competitive. Mr Finch, however, said that it had to be remembered that in Asian countries a high proportion of the population was under 25: growth in domestic demand could offset poorer export performance.

A Member noted that Blackrock appeared in the middle of the charts on page 13 of JLT’s report, which seemed natural enough since almost half the Fund was invested in them. Mr Finch said that was how Blackrock was intended to perform and they were performing their expected role. The Blackrock portfolio comprised long-term assets which were fairly static. The Member asked whether it was typical for a local authority pension fund to have this type of dominant portfolio. The Investments Manager replied that most, but not all, funds had a passive fund, which helped manage overall investment costs.

The Independent Adviser suggested that the structure of JLT’s report should reflect the new investment structure of the Fund. Mr Finch agreed that this was a good idea.

Before discussing the exempt appendices, the Committee **RESOLVED**

> “that having been satisfied that the public interest would be better served by not disclosing relevant information, the public shall be excluded from the meeting for the duration of the discussion of exempt appendices, 3, 4 and 5 of this item, 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 Part 1 of Schedule 12A of the Act as amended.”

RESOLVED to note the information as set out in the report.

42 INFRASTRUCTURE

The Investments Manager presented the report. The Panel was being invited to approve the proposed policy framework. She reminded Members that it had been agreed to take the issue to the full Committee, because Infrastructure would constitute a new asset class. Mr Finch would lead a briefing session before the December meeting of the Committee. There were many different ways of investing in infrastructure, so it was proposed to delegate as much of the detailed decision making to officers and the Panel as possible. If the framework was too prescriptive it would prevent the Fund from taking advantage of available opportunities. Infrastructure was not like the Diversified Growth Fund or Emerging Markets where a fairly tight specification could be drawn up in advance. Mr Finch agreed that infrastructure was a broad category with many access routes. What was the point of having an infrastructure asset class? The answer was to take advantage of its different characteristics, which would provide additional diversification and an ongoing income stream.

The Chair said that there a number of issues to be considered. One was whether to invest in listed or unlisted companies. The other was UK versus global. There seemed to be far greater infrastructure opportunities outside the UK. A Member noted that one of the things the Fund was looking for was UK inflation protection, which might be easier to secure from UK rather than global assets. The Chair said that a third issue was whether infrastructure investment should be done directly in individual projects, or through a fund of funds structure. The Investments Manager said this would not be specified in advance; a tender would be issued and submissions reviewed. Mr Finch said that an important factor would be the speed that funds were able to make investments; the aim was to get projects going and to start earning returns as soon as possible.

A Member asked about the tender process to be followed. The Investments Manager replied that a significant issue was whether to go through the Official Journal of the European Union (OJEU) process or not. The OJEU process imposed a number of conditions that may restrict the opportunities. The Member said that an issue she would be concerned about would be the level of debt in particular projects. The Assistant Investments Manager suggested that leverage was an inherent part of infrastructure projects but most pooled funds are not leveraged at the fund level. The Member, however, thought that the protection against interest rate changes was required.

A Member raised the possibility of reputational risk, for example through investments that harmed the environment. The Investments Manager responded that once a manager had been appointed, it would not be possible to control what they invested in. The Committee could only exercise control at the tender stage and through the due diligence process. The Head of Business, Finance and Pensions suggested that environmental regulation was so strict that there was little to fear, but the Member felt that this did not apply in emerging markets. The Investments Manager responded that the Fund would not necessarily need to invest in infrastructure in emerging markets to achieve its objectives. She suggested that there could be a discussion with the Panel on how to weight different aspects in the tender evaluation process.

A Member noted that a pension fund was a major investor in the Bath casino project. The Investments Manager replied that the Fund would only be able to invest directly in a limited number of projects, and so would not get the diversification that was desired by the direct investment route. Skilled investment managers experienced in structuring deals and finance were also required to achieve the best returns.

The Chair wondered whether having an investment partnership with other pension funds would give extra bargaining power. Mr Finch suggested that a company could be created as a joint investment vehicle. Alternatively agreement could be reached about collaborating at the tender stage, so that data gathering would only have to be done once by one of the partner funds.

The Chair wondered how the rate of return should be specified, as a percentage or linked to inflation. Mr Sheth said that it could be specified in a number of ways.

At the conclusion of the discussion, it was **RESOLVED**

1. to recommend that proposed policy framework as amended should be presented to the Committee for approval at the December 2013 committee meeting;

2. To delegate the tender process to officers who will consult the panel as required.

43 WORKPLAN

RESOLVED to note the workplan.

The Assistant Investments Manager asked Members to note that, since it had been agreed to meet each of the Fund's managers every two years, it would be necessary to have more workshops either immediately before or after meetings.

The meeting ended at 3.52 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services