Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 18th March, 2016, 2.00 pm

Bath and North East Somerset Councillors: David Veale (Chair), Christopher Pearce (Vice-Chair), Paul Myers, Cherry Beath and Shaun Stephenson-McGall

Co-opted Voting Members: Councillor Steve Pearce (Bristol City Council), Councillor Mary Blatchford (North Somerset Council), William Liew (HFE Employers), Richard Orton (Trade Unions), Ann Berresford (Independent Member) and Shirley Marsh (Independent Member)

Co-opted Non-voting Members: Wendy Weston (Trade Unions)

Advisors: Tony Earnshaw (Independent Advisor) and James Giles (Mercer)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Geoff Cleak (Pensions Benefits Manager) and Martin Phillips (Finance & Systems Manager (Pensions))

64 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

65 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cheryl Kirby.

66 DECLARATIONS OF INTEREST

There were none.

67 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

Councillor Lin Patterson made a statement urging the Fund to divest from fossil fuels. A copy of her statement is attached to these Minutes.

The following members of the public made statements urging the Fund to divest from fossil fuels:

Jack Lloyd (Fossil Free Bristol)
Holly Templer (Fossil Free Bristol)
Elaine Ashley (Fossil Free Bristol)
David Searby (Fossil Free B&NES)
Simon Griffiths (Fossil Free B&NES)

The Chair thanked Councillor Patterson and the members of the public for their statements and assured them that they would be given due consideration. He asked the members of the public if they could email copies of their statements to the Democratic Services Officer, so that they could be attached to the minutes. Statements from Fossil Free Bristol, David Searby and Simon Griffiths are attached to these minutes.

69 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

70 MINUTES: 3RD FEBRUARY 2016

The public and exempt Minutes of the meeting of 3rd February 2016 were approved as a correct record and signed by the Chair.

71 AUDIT PLAN 2015/16

The Finance & Systems Manager (Pensions) introduced the report. He invited Members to note the Audit Plan 2015/16, which was attached as Appendix 1 to the report. He introduced Julie Masci from Grant Thornton, who commented in detail on the plan.

A Member noted the reference to Level 3 investments as a significant risk. He said that some of the Fund's investment managers would be open to this type of risk and wondered how this would be reported by the external auditors. He said that this type of risk would arise in the case of fossil fuels and he that he would like to know how it was possible to have confidence in the valuations put on these investments by the markets and by managers. Similar issues applied to other types of investment. The risk might not always be material, but was something of which the Fund should be aware. In his response the Head of Business, Finance and Pensions noted that the public speakers had stated that some fossil fuel assets were overpriced and that this represented a risk to the Fund. But there were valuation risks associated with all asset classes. What the external auditors would be focussing on was the process of risk assessment and whether valuations were reasonable in the light of that risk assessment and of advice received. The Member said that he disagreed. He thought the whole point of active management was to buy shares when you thought they were undervalued and to sell them when you thought they were overpriced.

A Member said that one of the biggest risks now facing the Fund was pooling, involving the transfer of substantial assets to a collective investment vehicle, yet this was not included in the plan. Ms Marci responded that pooling of investments had been mentioned in the plan as part of the background to the business of the Fund in 2015/16, but no transfers had taken place in 2015/16 and the timing of the commencement of transfers was uncertain, so it was not possible to predict the impact on the 2016/17 accounts.

A Member asked about the level of the audit fee (£28,000). He wondered whether this was enough to do allow the auditor to do all the work that needed to be done. Ms Marci replied that external auditors had very specific responsibilities and that the level of fee was based on the national scale set by Public Sector Audit Appointments Limited.

RESOLVED to note the Audit Plan for the accounts for the year ended 31st March 2016.

72 SEPARATE IDENTIFICATION OF PENSION FUND TRANSACTIONS AND BALANCES

The Finance & Systems Manager (Pensions) presented the report. He invited Members to note the steps to be taken to comply with the recommendation of the external auditors in their audit of the 2014/15 accounts that it should be easier to identify Pension Fund transactions and balances separately from those of the Council. In reply to questions from Members he said:

- The external auditors had confirmed that they were satisfied with the proposal to address the issue by creating a separate journal identifier for Pension Fund transactions.

- The cash balances of the Fund were held and invested separately from those of the Council.

RESOLVED to note the additional controls to be set up in the Council's Financial Management System to more easily identify Avon Pension Fund journal transactions as outlined in the report.

73 LGPS POOLING OF INVESTMENTS - UPDATE

A Member spoke against the motion to take this item in exempt session. He said that he did not think the contents of the report justified this, and he felt very strongly that members of the Fund had a right to know what it was proposed to do with their money. He thought that Fund members should have free access to this information.

After Members had debated the motion, it was **RESOLVED** by 8 votes in favour, 1 vote against and with 2 abstentions that the Committee 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 the public shall be excluded from the meeting for this item of business, and the reporting of this item shall be prevented under section 100A(5A), because of the likely disclosure of exempt information as defined in paragraphs 1 and 2 of Part 1 of Schedule 12A of the Act as amended.

After discussion, it was **RESOLVED** to agree the recommendations in the report.

74 BUDGET AND SERVICE PLAN 2016/19

The Head of Business, Finance and Pensions presented the report.

He said that the some of the key issues facing the Fund in the next three years were:

- pooling – the Committee had already agreed to provide additional resources, but there were the as-yet-unknown costs of implementation, which were not reflected in the Budget and Service Plan

- following the 2016 Budget, an acceleration in the Academies programme, resulting in the possible creation of 293 additional Academies, each of which could be a separate employer; there would be additional work in securing administrative compliance and in training; recruitment for additional posts would take place this year. It would help the Fund if schools becoming Academies joined Multi Academy Trusts.

- the valuation

It was proposed to create specific member and employer focussed services within the Administration team.

Staff turnover had been, and was likely to remain, a serious concern.

Members discussed the report and made comments and asked questions, to which officers responded

<u>Staff retention</u>

Could retention allowances be paid to staff?

There would need to be discussion with the Council's Human Resources Team. In the meantime attention will be given to job grading and flexibility.

How many apprentices are working in the Administration Team?

There are two at present, which will be doubled to four.

<u>Increase in employers</u>

The admission of Academies and the increase in employers will raise costs for the Fund. The Fund should investigate whether there were best practice models for dealing with Academies. A higher quality of data is demanded by the CARE scheme.

0.4% of employer contributions are earmarked for administration costs. This might not be enough, and will have to be examined as part of the valuation process. A great deal more is now being spent on compliance and regulation. In accordance with the Administration Policy, charges will be levied on employers who impose excessive additional administrative burdens. Efforts will be made to identify more efficient practices that employers could adopt, and consideration given to charging them supplementary fees if they fail to adopt them. As for best practice, administration staff visit schools about to become Academies and give training and help with thepensions software systems. The Fund needs smarter technology; discussions are ongoing with software suppliers about how to manage the increase in employers. All funds are facing the same issue. 53% of smaller employers are now sending data electronically. Member self-service needs to be encouraged to free up staff resources. Currently 10,000 scheme members are signed up for self-service; this needs to be increased to at least 80,000. The new member website will be launched next week.

Investment Strategy

The review of the Investment Strategy has been delayed because of work on pooling. The original target date was September 2016. There was a suggestion that there would be no new investments until the new Strategy had been agreed. There are serious issues in relation to the new Strategy that might not be resolved for many months. Would it be possible to agree an interim Investment Strategy?

The review of Responsible Investing Policy is due to complete as planned. Following the valuation the Investment Strategy will need to be reviewed for the change in the liabilitiy profile and this is due to take place early in 2017. The review of Responsible Investing Policy must be done thoroughly and cover all aspects and needs to take into account of what may be possible from pooling.

Transfer of Fire Rescue Service funding from DCLG to Home Office and merger of Police and Fire Service

The Fire Brigade Pension Scheme is an entirely separate scheme; Avon only administers it. Avon could continue to administer it, or the administration could be transferred to another organisation.

RESOLVED to approve the 3-year Service Plan and Budget for 2016-19 for the Avon Pension Fund.

75 TREASURY MANAGEMENT POLICY

The Finance & Systems Manager (Pensions) presented the report. He said there were no changes to the policy in Appendix 1, which was last approved by the Committee in July 2015. The Committee was not being invited to approve the list of counterparties in Appendix 2, which is simply a list of counterparties which meet the current criteria.

RESOLVED to approve the Treasury Management Policy as set out in Appendix 1.

76 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report. He said that the Panel had made no recommendations to the Committee. The Committee was invited to the note the minutes of the latest meeting of the Panel on 24th February.

RESOLVED to note the minutes of the Investment Panel meeting on 24th February 2016 at Appendix 1.

77 INVESTMENT PERFORMANCE AND STRATEGY MONITORING REPORT-PERIOD ENDING 31ST DECEMBER 2015

The Assistant Investments Manager summarised the key information in the report.

Mr Giles commented on Mercer's Investment Performance Report.

A Member asked Mr Giles whether he had any view on the assumptions made in the Fund's Investment Strategy. He was concerned about the Fund setting targets that were not achievable. Mr Giles referred to agenda page 119, which tabulated Strategy Assumed Returns against the 3-year Index Returns with comments. The Investment Manager said that return expectations would be considered in the valuation process.

RESOLVED:

1. To note the information set out in the report.

2. To note the LAPFF Quarterly Engagement Report.

78 BUDGET AND CASHFLOW MONITORING REPORT - PERIOD ENDING 31ST DECEMBER 2015

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

RESOLVED:

1. To note administration and management expenditure incurred for 10 months to 31 January 2016.

2. To note the Cash Flow Forecast to 31 March 2016.

79 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS FOR QUARTER ENDING 31ST DECEMBER 2015 AND RISK REGISTER

The Acting Pensions Manager presented the report.

RESOLVED to note:

1. Summary Performance Report to 31 January 2016;
2. Performance Indicators and Customer Satisfaction feedback for 4 months to 31 January 2016;
3. Progress on the Data Improvement Plan;
4. Risk Register.

80 BREACHES PROCEDURE

The Acting Pensions Manager presented the report.

The Head of Business, Finance and Pensions said that the draft Breaches Procedure had been considered by the Pensions Board. The Chair of the Board had suggested that second paragraph on page 198 should require serious breaches to be reported to the Pensions Regulator “immediately” rather than “as soon as practicable”. He, however, suggested that the current wording should be retained, because it would not be known what precisely was to be reported until an investigation had taken place.

RESOLVED to approve the Breaches Procedure as outlined in the report.

81 LGPS UPDATE: ADMINISTRATION AND PROPOSED LEGISLATION CHANGES

The Acting Pensions Manager presented the report.

RESOLVED to note:

1. The current position regarding the potential changes that would affect the administration of the Fund;

2. The information regarding HM Treasury consultations.

82 WORKPLANS

The Investments Manager presented the report.

She requested Members to complete and return the training self-assessment form by the end of the month.

RESOLVED:

1. To note the workplans.

2. That Members will undertake a self-assessment of their knowledge to inform the training plan 2016-2018.

The meeting ended at 4.44 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

In my first statement before this committee, I wish to do something a little unusual. I am not speaking to you in your heavy role as responsible to your fiduciary pledge to profit or to your loyalty to a party rationale, but to the part of you which is that of God. If you prefer a substitute word, (Spirit, Higher power, Source of Life, Love, etc,) call it what you will. Whether you care to know it or not, as a Quaker, I know there is that of God in each of you which may or may not be reached.

And I do not envy you in a role with extreme tension between the still, small callings of that and your obligations enmeshed in a system which puts other values above it. The clear path consistent with that of God, or good, in you is one which strenuously begins the divestment process from fossil fuels. As Bill McKibben says, "If it is wrong to wreck the climate, it is wrong to profit from it."

As you will hear from others, it is not a risk to profits to choose to disinvest. But if you say it is, I answer that if we choose to focus on profit as the "bottom line" we ignore the humanising purpose of God as discerned by those closest to God through history. This is a capitalist heresy, not heresy to a written dogma, but to the depths of truth within us. Profit is not the "bottom line." As creatures of God, we have as our divine vocation the achievement of human well-being, and the well-being of other life facing extinction, not existing for ourselves, but belonging to the God who ordains sufficiency for all.*

I know this is peculiar language in these surroundings. We all compartmentalise in order to adapt to a disjointed and diseased system based on profit for the few which impacts so cruelly on so many, as well as the whole of the planet. But other organisations are now divesting and surviving, and they will be the survivors who align with a future consistent with the welfare of all, as the emerging truth insists. In a quiet moment, please remember this call to your finest self and turn towards divestment as your greatest contribution in your capacity on the Pension Fund Committee.

*This paragraph draws on the work of Walter Wink in The Powers That Be, Theology for a new Millennium, page 50

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Statement presented by Fossil Free Bristol to APF committee on the 18th March 2016

Paris

In Paris at the COP21, world leaders agreed that we need to hold global warming below 2°C. We can only achieve this if we stop burning fossil fuels - we need to leave 80% of it unburned if we are to have even a 75% chance of staying within that limit.

You know the share prices of these fossil fuel companies are based on them extracting and burning ALL of their reserves, which they simply cannot do if we are to have a liveable planet. Therefore these shares are hugely overinflated - a carbon bubble' - and if we don't act soon, we could be left with stranded assets. We've already seen oil, gas and coal prices drop dramatically, and the Bank of England has warned investors of the risks.A recent Citibank report stated that the fossil fuel industry will 'bottom out' in 2016. Your members savings are at risk if you do not divest from fossil fuels. Don't delay the decision.

Fossil fuel share prices can only be negatively impacted by the growing world wide divestment movement and recent NASA data detailing record rises in the average global surface temperatures (https://www.theguardian.com/science/2016/mar/14/february-breaks-global-temperature-records-by-shocking-amount)

Divestment Updates

More than 500 different institutions around the world have now divested over $3.4 trillion from fossil fuels. That includes 50 pension funds. In the UK, Haringey and South Yorkshire local government pension funds have now joined the Environment Agency pension fund in making divestment commitments.

The South Yorkshire Pension Fund has acknowledged that 'there should be a long term tilt towards a low carbon economy within its portfolios' and 'agreed to monitor carbon risk.' It has also formally confirmed that it has divested from 'pure' coal and tar sands companies, noting that coal is the 'most polluting' fossil fuel.

In January, Haringey Council Pensions Committee pledged to invest £200 million of their equity funds into a Low Carbon Fund. This means that the council will no longer have any investments in coal industries anywhere in the world, and also comes with an agreement to explore making specific investment in the low carbon economy, such as renewable energy.

Our petition

We have listened to your concerns that you cannot make a formal “divestment commitment” but we disagree. By selling your direct investments in coal, oil and gas extraction companies, and instead investing in the solutions to climate change you could achieve full and transparent divestment. Later this month your advisor’s Mercers are releasing their research into investments that tackle climate change.

There is not just our voice behind the divestment plea; many other fund members and citizens in the Avon area support our concerns. As testament to this we can report that a petition is ongoing which calls on the fund management to
Immediately freeze any new investments in fossil fuels
Divest from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds within 5 years.
We would request that this statement is taken into consideration in the ongoing review of the Responsible investment policy.

As an addition to what was said at the committee meeting, we would like to make one further comment. If there was any hesitation from the investment managers to sell oil stocks at a time when share prices are so low, we ask the committee to consider the predictions of Ian Taylor, the CEO of Vitol Oil (the world’s largest energy trader). Mr. Taylor stated that he foresees a price band of crude oil between $40 and $60 a barrel and that he “can see that band lasting for five to ten years”. With this in mind, it seems even more pertinent to include immediate divestment in fossil fuels in Avon Pension Fund’s Responsible Investment Policy.

Citation:
http://www.bloomberg.com/news/articles/2016-02-08/world-s-largest-energy-trader-sees-a-decade-of-low-oil-prices

Fossil free B&NES – presentation to Avon Pension Fund - 18th March – David Searby

Ladies and gentlemen, thank you for this opportunity to address the committee

Fossil Free B&NES maintains that there is a strong case for APF to divest from fossil fuels on financial as well as moral grounds.

As the concepts of climate risk, the 'carbon bubble' and 'stranded assets' become more widely understood and fossil-free funds can be shown to outperform more conventional ones, the perception that fossil fuel investments are a sound choice for pension funds is being broken.

STRANDED ASSETS

- Pioneering work by the Carbon Tracker Initiative in their **'Unburnable Carbon'** report identified that proven fossil fuel reserves (2,795 gigatons of CO2) exceed the total carbon budget we are able to burn (565 gigatons) by a factor of 5. http://carbontracker.live.kiln.digital/Unburnable-Carbon-2-Web-Version.pdf
- Because these 'proven' reserves have been factored into the share price of the fossil fuel companies already, this represents a serious overvaluing of these companies' share prices.
- These 80% of 'unburnable' fossil fuel reserves run a high risk of becoming a 'stranded' or worthless asset and a poor investment.
- The size of this 'Carbon Bubble' has been estimated at $27tr.
- At a speech to Lloyds of London in September last year, the governor of the Bank of England issued a stark warning that investors face "potentially huge" losses from climate change legislation that could make vast reserves of oil, coal and gas "literally unburnable". He said: "The exposure of UK investors, including insurance companies, to these shifts is potentially huge," http://www.bankofengland.co.uk/publications/Pages/speeches/2015/844.aspx http://www.theguardian.com/environment/2015/sep/29/carney-warns-of-risks-from-climate-change-tragedy-of-the-horizon
- While climate legislation that limits fossil fuel extraction is a considerable driver for stranding these assets, there are economic and physical as well as regulatory factors.
- For example the falling price of oil contrasts with the increasing cost of extraction through more extreme environments or extraction techniques and the rise and rise of renewable energy.
- A report by Carbon Tracker in May 2014 showed that, over the next decade, oil companies could invest $1.1tr in projects that require market oil prices of $95/bbl or more to earn a decent return.

COAL

- The coal industry is understood to be in terminal decline, with US coal industry losing 76% of its value in the last 5 years. http://www.theguardian.com/environment/2015/mar/24/us-coal-sector-in-terminal-decline-financial-analysts-say

- Wall Street banking giant JPMorgan Chase recently announced that it would avoid financing new coal projects in advanced economies due to their contribution to global warming.
  http://www.nation.co.ke/business/corporates/JPMorgan-to-avoid-financing-coal-projects/-/1954162/3107626/-/ukmb1jz/-/index.html

OIL AND GAS

- The gas industry is also increasingly under criticism, despite often being framed as the 'safest' of the fossil fuels. This new report from Carbon Tracker shows that gas prices are likely to stay depressed and in particular there there is oversupply of LNG into the European market which is likely to depress the spot price over the next few years.
- A recent report by Chatham House has also highlighted the high levels of uncertainty in oil investments due to the unknown potential impacts of changing demand and legislation to address climate change. The report stated "As long as the uncertainty over policy prevails, oil is in limbo and investment in it remains risky" https://www.chathamhouse.org/publication/oil-and-gas-mismatches-finance-investment-and-climate-policy

PERFORMANCE OF FOSSIL FREE FUNDS

- While historically fossil fuel investments have been highly profitable and considered a safe bet, there is now a significant body of evidence that fossil-free funds are performing much better.
- MSCI, who run global indices used by 6000 pension and hedge funds, found that investors who divested from fossil-fuel equities would have earned an average return of 13% a year since 2010, compared to the 11.8%-a-year return earned by "conventional investors."
  https://www.msci.com/resources/factsheets/index_fact_sheet/msci-acwi-ex-fossil-fuels-index-gbp-gross.pdf
- Insurance giant Aviva recently announced plans to invest £500m a year for the next five years in low-carbon infrastructure. http://www.businessgreen.com/bg/news/2419204/aviva-commits-to-gbp25bn-low-carbon-investment-push#
- Solar power costs are tumbling so fast the technology is likely to fast outstrip mainstream energy forecasts. That is the conclusion of Oxford University researchers, based on a new forecasting model published in Research Policy.

The UK's biggest energy lobbying group, Energy UK, has recently shifted its position on green energy and will start campaigning for low-carbon alternatives for the first time, in what environmental campaigners are describing as a watershed moment. The group, which represents big six providers, says it now supports phasing out coal-fired stations, after years of defending use of fossil fuels.

So we have is a happy coincidence of what is morally right and fiscally prudent.

Email: Fossilfreebanes@gmail.com

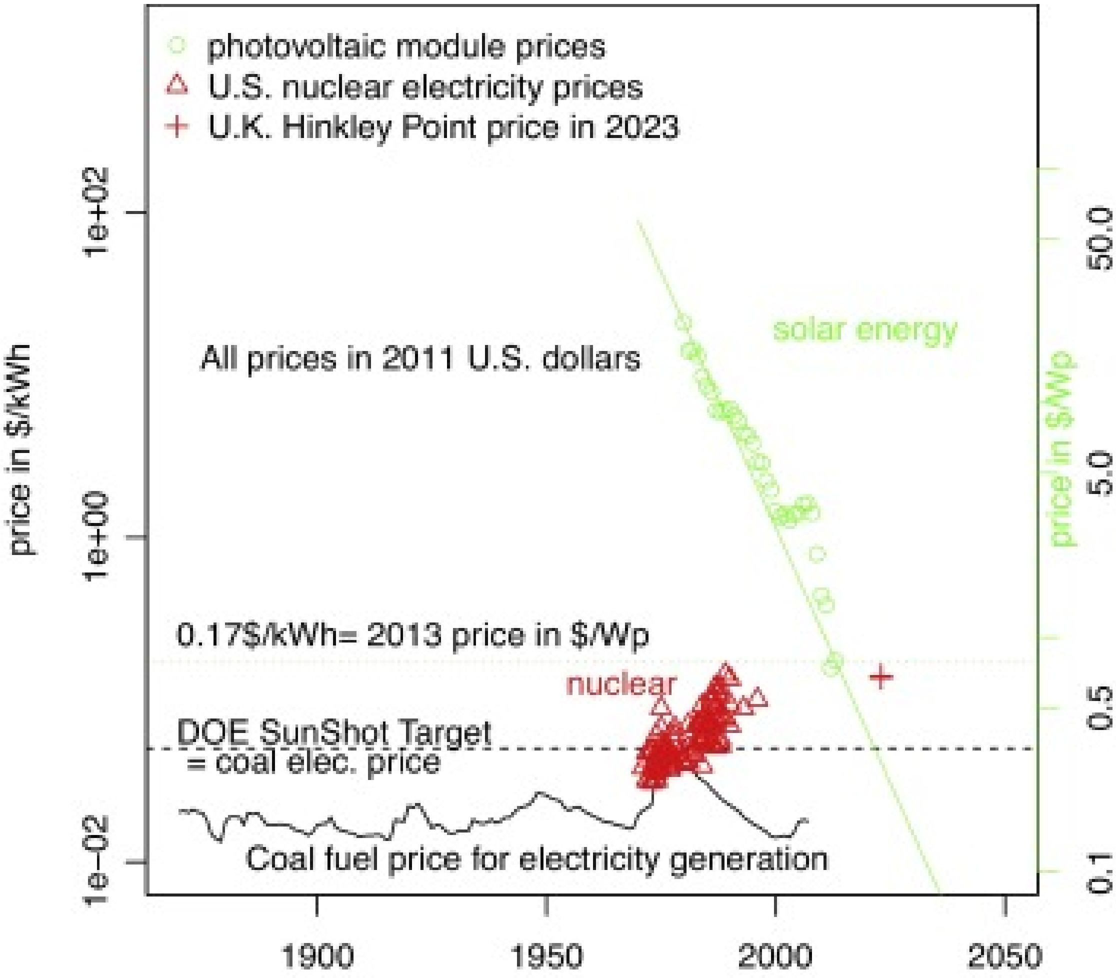

Fig. 1.
A comparison of long-term price trends for coal, nuclear power and solar photovoltaic modules. Prices for coal and nuclear power are costs in the US in dollars per kilowatt hour (scale on the left) whereas solar modules are in dollars per watt-peak, i.e. the cost for the capacity to generate a watt of electricity in full sunlight (scale on the right). For coal we use units of the cost of the coal that would need to be burned in a modern US plant if it were necessary to buy the coal at its inflation-adjusted price at different points in the past. Nuclear prices are Busbar costs for US nuclear plants in the year in which they became operational (from Cooper (2009)). The alignment of the left and right vertical axes is purely suggestive; based on recent estimates of levelized costs, we took \$0.177/kW h = \$0.82/Wp in 2013 (2013\$). The number \$0.177/kW h is a global value produced as a projection for 2013 by the International Energy Agency (Table 4 in International Energy Agency (2014)). We note that it is compatible with estimated values (Table 1 in Baker et al. (2013), Fig. 4 in International Energy Agency (2014)). The red cross is the agreed price for the planned UK Nuclear power plant at Hinkley Point which is scheduled to come online in 2023 (£ 0.0925 ≈ \$0.14). The dashed line corresponds to an earlier target of \$0.05/kW h set by the U.S. Department of Energy.

Simon Griffiths - Fri 18th March - Avon Pension Fund
I address this committee as a resident of Bath, one whose partner has a pension with the Avon Pension Fund.

While you are no doubt aware of your responsibilities in the administration of this fund, I ask you to consider these duties within the context of resilient investment portfolios, ones which are able to withstand the long-term challenges posed by climate change.

Historically, fossil fuel investments have been highly profitable, however, given that the link between fossil fuel use and climate change is now a scientifically and politically accepted reality, we can no longer assume that fossil fuels are a sound investment.

The tendency of asset managers to look at historic returns is especially wrong in the context of climate change. We are moving to a very different, low-carbon world. In this new world fossil fuel companies will end up with stranded reserves and over-valued shares.

We need to ask how such companies are addressing the challenges of this low-carbon world, and whether they are companies we really want to hold over a 5 to 20 year period?

This new world, and the new normal of extreme weather conditions are clearly visible in the flooding of Bath city centre, and the Somerset levels, over the Christmas of 2013.

While the council is to be congratulated on it's vision with the Bath Quays Waterside Project, which acknowledges and responds to the new reality of climate change, it's also worth noting the fact that planning policy requires this project to take into account the increased risk of flooding due to climate change.

So, in order for the redevelopment of the Lower Bristol Road area to proceed, the project must reduce the risk of flooding from a 1 in 50 chance to a 1 in 100 chance.

Is there not, however, an inherent contradiction in building flood defences that acknowledge and mitigate the worst effects of climate change, while also exposing this pension fund to the risks now associated with fossil fuel investments?

I do not believe we have the luxury to both acknowledge and deny the reality of climate change. I believe that such cherry picking will prove to be financially irresponsible.

A major reallocation of the Avon Pension fund, away from fossil fuels, and into climate resilient sectors, is both necessary and possible. I ask that today you show such vision and begin this reallocation.

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