Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 11th December, 2015, 2.00 pm

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

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

Co-opted Non-voting Members:

Advisors: Tony Earnshaw (Independent Advisor) and Steve Turner (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))

48 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report.

<u>Liability Management</u>

He reminded Members that the aim was to put a framework in place to manage the mismatch between the changes in the value of assets and liabilities over time, thus allowing the Fund to minimise funding level volatility and stabilise employer contribution rates more effectively. In June the Committee had requested the Panel reviewed the range of investment options available to more effectively manage liability risks, how they could be implemented and the cost. The Panel had taken two decisions as noted at 4.2 a) and 4.2 b). The interim step recommended in 4.2 a) would be beneficial irrespective of whether the full proposal was eventually implemented, and would not reduce the expected return on assets.

<u>Rebalancing policy</u>

The policy of the Fund is to rebalance the portfolio back to the target allocations after market movements cause allocations to vary by a certain amount. Rebalancing is important because it ensures that the Fund is invested in accordance with strategic asset allocations. It can also add value over time as it forces selling of relatively expensive assets and the purchasing of relatively cheaper assets. The Committee was invited to agree the recommended changes to the rebalancing policy as set out in 4.3 a) of the report.

A Member expressed concern about the potential for overtrading. He was unable to find information in the papers about how often illiquid assets would be rebalanced. The Investments Manager referred to line 7 of the table on page 171 of the agenda. Mr Turner said that he did not think overtrading would take place; he considered that the proposed new policy would establish a much clearer framework for decision making. The Member requested that the Investment Panel should monitor trading frequency. Mr Turner suggested that the main issue would be ensuring that the Fund was close to the target allocation of some asset classes, which depended on the draw-down period and whether the manager had called on all the capital that the Fund had committed. The Fund might also find that it was below a target allocation, because the value of other assets had risen, in which case it would a question of catching up, rather than rebalancing back.

The Investments Manager said that it was proposed that a workshop on the funding strategy should be combined with a workshop on the concept of liability-driven investment (LDI), after which Mercer would draft a framework to be considered by the Panel before it came to Committee. The LDI strategy should be considered as part of the valuation debate.

RESOLVED:

1. To agree the recommendation to increase the benchmark allocation and allocation range to index-linked gilts as at paragraph 4.2 a) of the report, to better match liabilities.

2. To note the decision by the Panel to prepare a framework to more effectively use the investment assets to match the liabilities, as set out in paragraph 4.2 b) of the report.