

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 22nd September, 2017, 2.00 pm

Bath and North East Somerset Councillors: David Veale (Chair), Shaun Stephenson-McGall, Lisa O'Brien and Rob Appleyard

Co-opted Voting Members: Councillor Mary Blatchford (North Somerset Council), Councillor Steve Pearce (Bristol City Council), Councillor Toby Savage (South Gloucestershire Council), William Liew (HFE Employers), Shirley Marsh (Independent Member) and Paul Scott (Independent Member)

Co-opted Non-voting Members: Richard Orton (Trade Unions)

Advisors: Megan Gibson (Grant Thornton), Beth Garner (Grant Thornton) 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 Manager) and Martin Phillips (Finance & Systems Manager (Pensions))

26 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

27 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cheryl Kirby and Wendy Weston.

The Chair welcomed Cllr Toby Savage and Paul Scott to their first meeting of the Committee.

28 DECLARATIONS OF INTEREST

Cllr Toby Savage declared that he had at one time been an employee of South Gloucestershire Council.

29 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

31 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

32 MINUTES: 5TH JULY 2017

A Member raised an issue on the exempt minutes. Having been satisfied that the public interest would be better served by not disclosing relevant information, the Committee **RESOLVED** that the public should be excluded from the meeting for the duration of the discussion about the exempt minutes and the reporting of this part of the meeting be prevented 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.

When the Committee returned to public session, the public and exempt minutes of the meeting of 5th July 2017 were approved as a correct record and signed by the Chair.

33 NOTING OF FINAL ACCOUNTS AND AUDIT REPORT

The Finance and Systems (Pensions) Manager presented the report. He reported that the audited Statement of Accounts 2016/17 had been approved by the Corporate Audit Committee on 12 September. He drew attention to the six changes to the draft Statement of Accounts presented at the June Committee as detailed in paragraph 4.2 of the report. He also drew attention to the proposals in paragraph 4.6 that in future following the presentation of the draft Statement of Accounts in June only material changes should be notified at the following September meeting, and that the Chair and Vice Chair should be responsible for approving the Annual Report.

Ms Gibson presented the Annual Governance Report. An unqualified audit opinion had been given on the Fund's accounts and no significant control weaknesses had been identified. There were no non-trivial misstatements. She drew attention to the issue discussed on page 17 of the Annual Governance Report (agenda page 29), namely the application by a small Community Admitted Body of an incorrect contribution rate to the pay of one individual. An action relating to this had been entered in the Action Plan (page 25, agenda page 37). A Member asked for a report about this issue to be presented at the December meeting of the Committee.

A Member was pleased to note that the separation of the Fund's accounts from those of the Council had been completed.

No issues were raised about the Committee's Annual Report.

RESOLVED:

1. to note the issues raised in the Annual Governance Report.

2. to note the final audited Statement of Accounts for 2016/17 contained within the draft Annual Report and to approved the draft Avon Pension Fund Annual Report 2016/17.

34 ANNUAL RESPONSIBLE INVESTING REPORT

The Investment Manager presented the report. She introduced Christina Weimann and Neil McIndoe from Trucost.

Mr McIndoe said that policy relating to environmental reporting was developing rapidly. The task force set up by the Financial Stability Board, for example, was having a significant impact. There would be greater transparency and more information from companies. Environmental analysis was now becoming mainstream, as exemplified by Standard and Poor's report on climate change.

Mr McIndoe and Ms Weimann gave a presentation on carbon risks and environmental analysis. A copy of their PowerPoint slides is attached as an appendix to these minutes.

After discussion, it was **RESOLVED** to approve the annual Responsible Investment Report for 2016/17.

35 UPDATING ON POOLING

The Investment Manager presented the report. She drew attention to the activities of the Client Group reported in paragraph 4.2:

- appointment of administrator and custodian; the custodian appointed was not currently working for any of the BPP funds
- transfer of local funds to the custodian
- project plan

In September the focus would switch to the investment portfolios to be offered by BPP to meet the investment strategies of the underlying funds. Once this had been decided, the next step would be the formulation of a transition plan.

She drew attention to the engagement days for Committee and Board Members within the pool listed in paragraph 4.5.

Paragraph 4.4 of the report stated that there would be an update on the project budget. Timing issues meant that this would not be possible at present, but costs are indicated to be within the projections of the business case.

She reported that Matt Betts, Assistant Investments Manager, would be moving to BPP, so this would be the last meeting of the Committee that he would attend. Members thanked him for the support he had given to the Committee and the Investment Panel.

The Head of Business, Finance and Pensions said that the Investments Team was stretched, and it still remained to be seen what the impact of the transfer of functions

to BPP would be on operations. A Member asked what assurance there was that the Fund would be able to recruit appropriate staff. The Head of Business, Finance and Pensions replied that a number of funds had lost staff. The market would be tested, and if there appeared to be a mismatch between market expectations and the package currently offered, there would have to be a review. Replying to another Member he said, that recruitment would be on a permanent basis, rather than by fixed-term contracts, as this would be more likely to attract suitable candidates.

A Member recalled that it had been said a few months ago that the number of portfolios managed by BPP would only be about thirty. He wondered how they could be limited to this number if funds had very individual requirements. The Investments Manager agreed that it was the intention to limit the number of portfolios, and not to have a number of very small portfolios. At present BPP funds each had between 10-20 mandates. She thought it would happen only rarely that a mandate held by a fund could not be merged into one of the portfolios. Replying to a question from another Member, she said that the ultimate aim was for funds to pool 100% of their assets.

RESOLVED:

1. to note the progress made on the pooling of assets and the budget;
2. to note the dates of the member engagement days.

36 MIFID II - DELEGATION TO OPT UP

The Investments Manager presented the report. She said that the issue was that if the Fund was classified by default as a retail investor, it would be unable to invest in complex investments, including infrastructure. In order to retain the ability to invest in these kinds of assets, the Fund would need to opt up to professional status. However this meant that the Fund would lose protections available to retail investors. As part of the opting up process, Members would be required to complete a self-assessment of their knowledge and understanding of investment-related matters with a view to ensuring that the CIPFA Knowledge and Understanding requirements are met. The self-assessment questionnaire was distributed to Members. An electronic copy could be downloaded from the website. Officers responded to questions from Members:

- The completed questionnaire in electronic form could be returned by email.
- Members' assessment of their confidence levels would be used to assess training needs.
- the Pension Board is not referred to in question 3, because it is not a decision-making body.

RESOLVED:

1. to note the potential impact on investment strategy of becoming a retail client with effect from 3 January 2018;

2. to agree to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy;
3. in electing for professional client status, the committee acknowledges and agrees to forgo the protections available to retail clients attached as Appendix 1;
4. to approve delegated retrospective responsibility to the Head of Pensions and Investments Manager for the purposes of completing the applications and determining the basis of the application as either full or single service;
5. to note that each committee member will be required to complete a self-assessment of their investment knowledge as part of the opt up process.

37 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report.

A Member expressed concern about the impact of the Equity Risk Management Structure on the Fund in the event of serious market crash.

RESOLVED:

1. to note the decisions as summarised in paragraph 4.2.(1) and (2);
2. to note the Panel noting of the investment manager appointment decisions as summarised in paragraph 4.3;
3. to note the minutes of the Investment Panel meeting on 4 September 2017 at Appendix 1 and Exempt Appendix 2.

38 REPORT OF INVESTMENT PERFORMANCE AND STRATEGY MONITORING FOR PERIODS ENDING 30 JUNE 2017

The Assistant Investments Manager presented the report and summarised the key information.

The funding level had improved by 3% over the quarter to 99%, driven mainly by strong asset returns over the twelve-months to 30 June. The three-year return was also ahead of the assumed strategic return. The Fund underperformed against the strategic benchmark over the year and over three years, with most of the underperformance being due to the impact of currency hedging. As reported under the previous item, Officers and the Panel have been working to implement changes agreed to the Investment Strategy to take advantage of the improvement in the funding level and to reduce risk.

Mr Turner presented the Mercer investment performance report and responded to comments and questions from Members.

RESOLVED:

1. to note the information set out in the report;
2. to note LAPFF Quarterly Engagement Report at Appendix 3.

39 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS AND RISK REGISTER

The Pensions Manager presented the report and responded to comments and questions from Members.

RESOLVED:

1. to note membership data, Employer Performance and Avon Pension Fund Performance for the 3 months to 30 June 2017;
2. to note progress and reviews of the TPR Data Improvement Plan.

40 BUDGET AND CASHFLOW MONITORING 2017/18

The Finance and Systems Manager (Pensions) presented the report and responded to comments and questions from Members.

RESOLVED to note:

1. the administration and management expenditure incurred for 4 months to 31 July 2017;
2. the Cash Flow Forecast to 31 July 2017.

41 APPROVAL OF COMMITTEE'S ANNUAL REPORT TO COUNCIL

The Investment Manager presented the report. The Committee's Annual Report would be presented to Council in November and would be posted on the Fund's website.

A Member said that it was important that the Fund's key stakeholders understood the complexity and volume of its work and its current situation. Another Member said that the Investment Officers and the Investment Panel had done an incredible amount of work. The rise in the funding level and the decrease in cost per member were major achievements, for which they deserved congratulations.

RESOLVED:

1. to approve the 2017 Annual Report to Council;
2. to note the Local Pension Board Annual Report.

42 UPDATE ON LEGISLATION, INCLUDING ACADEMIES AND POOLING FORUM CONSULTATIONS

The Pensions Manager presented the report. He said that overall there had been little movement on issues. He drew attention to the DCLG letter on the Brewster case given in Appendix 2 and the draft responses to the SAB consultation on Academies Objectives in Appendix 3 to the SAB consultation on the proposed Cross Pooling Information Forum in Appendix 4. Consultations were expected in October/November on exit payments and on the re-employment of former high earners. DCLG are understaffed and have limited access to legal advice, which is causing delays.

In response to a question from a Member, he confirmed that a number of cases had been identified that would be affected by the Brewster decision.

RESOLVED:

1. to note the current position regarding the developments that could affect the administration of the Fund.
2. to note and agree the consultation responses made in respect of Academies and Cross Pooling.

43 WORKPLANS

The Investment Manager presented the report.

RESOLVED to note the workplans.

The meeting ended at 4.15 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services