

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 7th December, 2018, 2.00 pm

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

Co-opted Voting Members: Councillor Mary Blatchford (North Somerset Council), Councillor Toby Savage (South Gloucestershire Council), William Liew (HFE Employers), Richard Orton (Trade Unions), Shirley Marsh (Independent Member) and Pauline Gordon (Independent Member)

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

Advisors: Steve Turner (Mercer)

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

40 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

41 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Rob Appleyard, Cheryl Kirby and Councillor Steve Pearce.

42 DECLARATIONS OF INTEREST

There were none.

43 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

Mr David Searby of Fossil Free B&NES made a statement urging the Fund to disinvest from fossil fuels. He believed that the creation of the Brunel Pensions Partnership gave opportunities for greater progress with low-carbon investments. In a survey of council investment in fossil fuels published a year ago it was estimated

that Avon PF had about £180m invested in fossil fuels. £21m of this was invested in Shell, whose target to halve its net carbon footprint by 2050 he believed to be woefully inadequate. He suggested that Shell was also a bad choice in commercial terms, as its share price had fallen by about 8% in the last six months. Shell had a £4m stake in Cabot Oil and Gas, which had been fined \$US4m for polluting water in the US, and £7m in Rio Tinto, which had emitted more than 26m tonnes of carbon in the year ending in July 2017. The Avon Fund's Responsible Investing Annual Report 2017/18 shows that though the Fund was 28.5% more carbon efficient than the benchmark, more than 50% of the generating mix of its energy investments was still in oil, gas and coal. Fund managers placed a lot of emphasis on engagement with the fossil fuel industry, but experience had shown this to be ineffective. Thirteen UK Councils had committed to completely disinvest from fossil fuels. He urged Avon PF to follow their lead.

The Chair thanked Mr Searby for his statement.

45 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

46 MINUTES: 21ST SEPTEMBER 2018

These were approved as a correct record and signed by the Chair.

47 PENSION BOARD MINUTES:

RESOLVED to note the public and exempt minutes of the Pension Board meeting of 8th November 2018.

48 REVIEW OF GOVERNANCE ARRANGEMENTS

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

He said that the presentation of this paper to the Committee had been delayed by about eighteen months, because of the demands of the pooling process and the establishment of Brunel Pensions Partnership on staff time.

There were three main aims behind the proposals in the report. The first was to ensure that the membership of the Committee was appropriate for current circumstances. The number of academies had increased significantly, and they were now the largest group of employers in the Fund without representation on the Committee. There was also the need to achieve the optimum balance between lay members and those with professional investment experience, important if professional investor status under MIFID II is to be maintained. The second was to ensure that the Committee, Investment Panel and Pension Board work together more efficiently. At present about 70% of the papers coming to the Committee are simply for noting. Efficiencies could be achieved if the Pension Board dealt with more of the administrative and compliance issues, and if reporting from the Panel to the Committee was formalised. This would free the Committee to focus on core strategic

matters. Some of the papers currently coming to the Committee would instead go to the Board or the Panel, but would be available for Members of the Committee to view. There would still be the opportunity for Members of the Committee to raise issues from those papers at Committee meetings. The third aim was to facilitate liaison with Brunel PP. At the moment the main link to Brunel was through the Chair of the Committee and himself. He thought this was insufficient to provide adequate assurance to the Council as shareholder and to the APF as a client fund. It was therefore recommended that an informal Brunel working group be established

The addition of an academy representative and another Independent Member with professional experience would need to be offset by a reduction in the number of B&NES Councillors on the Committee. This had been discussed with the leaders of the Council's political groups, and no significant concerns had been expressed. Members discussed the proposals. The following points were made in discussion:

- An additional Independent Member would be welcome. Those with professional knowledge are able to understand issues more quickly and can help new members get up to speed. An Independent Member with actuarial experience would be a valuable addition to the Committee.
- The large and still increasing number of academies in the Fund justifies the appointment of an academy representative to the Committee, but how will the nomination process work? It would be helpful to see a proposal for this.

The Head of Finance, Business and Pensions agreed that a nomination process would have to be worked out taking account of the fact that there are both multi-academy trusts and independent academies. There would need to be some sort of election process. An invitation to nominate would be sent to all academy employers. Details of a proposed process will be tabled at the next Committee meeting.

- A reduction in the number of B&NES councillors on the Committee might lead to a reduction in the diversity of the membership, less chance of minority views being heard, and an increased risk of group think. The reduction of the number of B&NES councillors on the Panel to 2 will make it hard to achieve political proportionality. B&NES is the administering authority of the Fund, so if the number of B&NES councillors is reduced, it might be desirable to review how the Council will discharge its responsibilities in this role.
- A member raised the point that Brunel working group can hardly be 'informal', since it will be constituted under section 4 of the Committee's Terms of Reference. Likewise what does 'informal' mean in paragraph 7.2(b) of the report: 'move some regular reporting to an informal accessible format'? The working group should be established as a formal sub-committee.

The Head of Business, Finance and Pensions responded that there is no intention to operate behind closed doors. The proposal is that there should be a small group of Members focussed on Brunel, which would report formally to the Oversight Board, Committee or the Council as shareholder, without, in the interest of efficiency, being constrained by formal procedures all the time. As far as 'informal' reporting was concerned, it was the process that would be informal, not the papers themselves. The papers would still be accessible by Members, those that were not exempt would be in the public domain, and Members would still be able to raise issues about them

at Committee meetings. The point is that much of the information currently brought to the Committee is just for noting.

- There is no explanation in the report of the proposed reduction in the number of trade union representatives from 3 to 2.

The Investments Manager replied that the current number of trade union representatives had reduced to 2 because of union mergers.

- Consideration should be given to having a scheme member representative on the Committee.
- A reduction in the quantity of paper sent to Members will be very welcome.

After the discussion was concluded, it was **RESOLVED** to:

1. agree to consultation on proposed changes to Committee membership, namely:
 - a. a reduction in Bath and North East Somerset Council representation from 5 to 3;
 - b. addition of a further Independent Member to the Committee;
 - c. addition of an Academy Representative;
 - d. to consult with Employers over these proposed changes;
2. to defer the consideration of the establishment of a Brunel Working Group until the March 2019 meeting;
3. agree to the proposed changes to Terms of Reference of:
 - a. the Avon Pension Fund Committee, with the exception of section 4 (Brunel Pension Partnership Working Group);
 - b. the Avon Pension Fund Board for consultation with the Board;
 - c. to consult with the Avon Pension Fund Board in respect of these changes.

49 APPROVAL OF INVESTMENT STRATEGY STATEMENT

The Investment Manager presented the report. She drew attention to the comments from the Pension Board on the draft ISS contained in Appendix 3, the information about the Board's review of the ISS in section 5 of the report, and the proposed future process for consulting with Board described in paragraph 5.6.

A Member noted that many of the comments by the Board related to responsible investing (RI), and asked whether it would be better for the Committee to consider them as part of the review of the RI policy, rather than as part of the review of the

ISS. The Investment Manager replied that it is the role of the Board to assess whether the Fund had followed a proper process in its review of the ISS, and not to recommend particular policy outcomes. The Board's comments and queries should be considered in this light. The Board had agreed that the ISS complies with the LGPS regulations and statutory guidance. It is hoped that the RI policy will be reviewed in 2019/20.

A Member suggested that the last bullet point in paragraph 7.4 of the ISS should state that climate change poses an 'actual' not a 'potential' long-term financial risk to the Fund.

A Member noted that in a reply by the Fund to a comment from the Board it was stated that "APF policy is not to exclude purely on moral grounds at the strategic level" (agenda page 79), and asked whether there was information about the practice of other funds and whether any had decided to accept a lower return as a consequence of ethical investment. The Head of Business, Finance and Pensions said that funds had taken a variety of positions. Some had decided to exclude fossil fuels entirely. Avon had so far not decided to do so. Avon would want to consider the impact of exclusions on the Fund. The proper time to consider this would be after the strategic review and the ESG review. It was noted that while the Fund retains overall responsibility for setting strategic investment objectives, Brunel will increasingly be responsible for appointing managers and assessing ESG criteria and cost implications for the ten funds in the partnership.

A Member referred to paragraph 7.16 of the ISS, "Social Investment", and said that he could not recall that the Committee had ever discussed this as an objective of the Fund. The Investment Manager confirmed that it had not, but social investment could include some investments in infrastructure. This was something that could be discussed in a future review.

RESOLVED:

1. to note the conclusion from the Pension Board that the Draft ISS complies with the regulations and statutory guidance;
2. to note the comments from the Pension Board and agrees a process for consulting with the Board on social, environmental and corporate governance factors when reviewing policy as articulated in paragraph 5.6 of the report;
3. to approve the ISS for publication.

50 ANNUAL RESPONSIBLE INVESTING REPORT

The Assistant Investments Manager presented the report. He said that the report details the Fund's policies and activities throughout the year that contribute to its responsible investing objectives, including the appointment of a manager of a low-carbon tracker fund, into which the Fund's legacy passive equity assets had been transitioned.

A Member referred to table 11 'Generation Mix' on agenda page 157 and asked why the Fund was below the benchmark for renewables. The Investment Manager said that she would need to investigate and report back on this. Another Member said

that unless the Fund specifically invested in renewables, it was unlikely to increase the generation mix percentage of renewables. The Investments Manager cited the difficulty in accessing renewable 'pure plays' in listed markets, and further highlighted that, through the Fund's 2.5% commitment to Renewable Infrastructure, it was possible that the Fund had a higher percentage invested in renewables.

A Member asked how the Fund would ensure that the engagement of investment managers with companies actually achieved the Fund's desired outcomes, how the success of engagement is measured, and whether the Fund sets targets for corporate change with divestment as the end point if targets are repeatedly not met. The Head of Business, Finance and Pensions replied that such targets are not set. The Fund has to consider what it can do without suffering an adverse financial impact. It would be a useful question to consider as part of the strategic review. A key consideration at the moment is the role of Brunel, and how it is likely to engage more actively on environmental issues, recognising that the Environment Agency is one of the Brunel client funds. Avon will need to think about how it will engage with Brunel on ESG issues. A Member commented that the Fund could exert influence as a member of the Local Authority Pensions Fund Forum. Shareholder groups have shown that they are able to change company policies; ESG issues could ultimately be raised at a shareholders' meeting. He also suggested that the Fund needs to consider whether fossil fuel production is actually sustainable, and to try to identify suitable alternative investments which would allow it to disinvest from coal, for example. The Head of Business, Finance and Pensions noted that the Welsh Assembly Government has adopted a policy of refusing new applications for coalmining except under wholly exceptional circumstances.

A Member suggested that the Fund should be more proactive in publicising the progress it had made in its Responsible Investing Policy and get the support of scheme members for the effort to balance financial returns against environmental factors.

RESOLVED to approve the annual Responsible Investment Report for 2017/18.

51 UPDATE ON BRUNEL PENSION PARTNERSHIP

The Investments Manager presented the report. She said that the Brunel Oversight Board had met only the previous day, so the minutes of that meeting were not yet available. The minutes of the previous meeting were attached as Appendix 1 to the report.

She drew attention to the information in paragraph 4.1(c) of the report about the work being done by the Client Group and Brunel to develop KPIs to monitor Brunel's performance, which would develop over the next few months, and to the Autumn Progress Report to the Ministry of Housing, Communities and Local Government, which was contained in Exempt Appendix 7.

The TT equity portfolio had been transitioned to Brunel.

The Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED** that the public should be excluded from the meeting for the remainder of this item and that 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 Schedule 12A of the Act as amended.

After the discussion was concluded, it was **RESOLVED**:

1. to note the progress made on the pooling of assets;
2. the updated project plan for the transition of assets.

52 2018 INTERIM VALUATION UPDATE

The Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED** that the public be excluded from the meeting during this item of business and that 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 Schedule 12A of the Act as amended.

After the discussion was concluded, the Committee **RESOLVED** to note the information in the report.

53 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report.

RESOLVED to note the Panel's decisions as recorded in the meeting minutes.

54 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER

The Investment Manager presented the report. She said that because of the impact of Brexit concerns on currency volatility, it had been decided to roll all positions early this month ahead of the House of Commons vote on the Brexit deal.

Mr Turner presented the Mercer investment report and responded to comments and questions from Members. He asked Members to note that the funding level had remained stable over the quarter, hovering around 97%, despite falls in equity markets, so they should be confident that the equity protection strategy was working well. There was a great deal of uncertainty in markets because of Brexit.

RESOLVED to:

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

55 GMP RECONCILIATION - VERBAL UPDATE

The Technical Manager presented the report.

He invited Members to note the letter sent from the South West Area Pension Officers Group (SWAPOG) to both the Chair of the Scheme Advisory Board (SAB) and Minister for Housing Communities and Local Government (MHCLG) on 19 November 2018. A response was awaited.

RESOLVED to note the update.

56 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS FOR QUARTER AND RISK REGISTER

The Pensions Manager presented the report and responded to questions and comments from Members. He said that 37 new employers had joined the Fund during the period. There were 60 potential employers in the pipeline for admittance. Four apprentices had joined both the member services and the employer services teams. Administrative performance against SLA targets continued to be below benchmark, whilst comparative performance measurements against statutory deadlines were in target in all primary cases. Employer performance in notification of member retirement generally fell short of SLA targets. There were a number of ongoing projects as detailed in paragraph 5.6 of the report.

[Councillor Toby Savage left the meeting at this point.]

Two thirds of missing and 'gone away' member addresses had been found. Unfortunately the project had stalled because of lack of resource, but a temporary resource had now been recruited.

Following discussion it was **RESOLVED** to note:

1. membership data and Fund and Employer performance for the 3 months to 30th September 2018;
2. progress and reviews of the TPR Data Improvement Plan.

57 BUDGET AND CASH FLOW MONITORING 2018/19

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

RESOLVED to note:

1. the administration and management expenditure incurred for 7 months to 31 October 2018;
2. the Cash Flow Forecast at 31 October 2018.

58 UPDATE ON LEGISLATION

The Technical Manager presented the report.

RESOLVED:

- 1. to note the current position regarding the developments that could affect the administration of the Fund;
- 2. to note the response sent to MHCLG regarding the policy consultation issued in October.

59 WORKPLANS

RESOLVED to note the workplans.

The meeting ended at 4.41 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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